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Press Experiences 'Silent Revolution'

93CM0175A Beijing LIAOWANG [OUTLOOK]
in Chinese No 4, 25 Jan 93 pp 22-26

[Article by Fang Zheng (2455 2398) and Cheng Qing (4453 7230): "Is the Chinese Press Experiencing a Silent Revolution?—New Newspapers Are Springing Up Like Bamboo Shoots, Press Is Becoming Increasingly Consumer and Market-Oriented"]

[Text] The early statistics being published for the new year certainly do not seem to be very "auspicious." In comparison to 1992, national newspaper subscriptions are down 8 percent, periodical subscriptions are down 10 percent, and major newspapers and periodicals (abbreviated hereafter as news publications), such as RENMIN RIBAO, ZHONGGUO QINGNIAN BAO, GUANGMING RIBAO, LIAOWANG ZHOUKAN, and BAN YUE TAN, are all losing readers.

But this certainly does not seem to be alarming the editors of major Chinese news publications, as it all appears to have been anticipated. National press subscription funds are at least about equal to 1992. While some say that declining subscriptions signal a danger that cannot be ignored, others note that higher prices for expanded editions mean that there is no cause for concern despite falling subscription rates.

In clear contrast to our major news publications are the flourishing newsstands in the Chinese capital of Beijing, with busy streets having "a newsstand" every three or five steps. Adding them up in the midst of cold January winds shows that there are six along Beijing's Dongdan intersections, eight of varying sizes at Xidan intersections on Saturdays, over 1,200 registered retail stands throughout Beijing, and countless numbers of temporary street or subway "guerrilla" newsstands.

These streetcorner newsstands have never sold major publications.

The Chinese press seems to be becoming polarized into subscriptions mostly to major news publications, and retail sales of mainly minor ones and tabloids. The Chinese press market can also be roughly divided into subscriptions at public expense and private retail sales.

This phenomenon is worth exploring.

The Sad Reality Is That It Is Impossible To Buy a Copy of RENMIN RIBAO at a Beijing Post Office

This is "old news" as far as buying newspapers is concerned.

A Hong Kong TA KUNG PAO reporter covering the National People's Congress in Beijing in March 1992 went to buy a copy of RENMIN RIBAO at a Wangfujing newsstand, where there were dozens of newspapers, but no "major ones." The reporter was directed to the West Chang'an Street Post Office, which had no copies of RENMIN RIBAO either, and was told that this post

office received only 10 copies of RENMIN RIBAO a day. The reporter then searched for a copy of RENMIN RIBAO throughout half of Beijing in a taxi "all in vain." After TA KUNG PAO published this reporter's story, Beijing's WENZHAI BAO printed extracts from it.

This incident was discussed at great length in Beijing press circles.

A reporter again visited the West Chang'an Street Post Office at 1700 on 5 January 1993, just as people were getting out of work and surging to the press retail sales counter to buy papers. This post office had received 10 copies of RENMIN RIBAO that morning, of which one remained at 1700 and had still not been sold by 1745. Meanwhile, the post office had received 150 copies of BEIJING WANBAO that morning, of which about a dozen were left at 1700 and none by 1730. It received 25 and 16 copies, respectively, of the previous day's SHANGHAI XINMIN WANBAO and GUANGDONG YANGCHENG WANBAO, all of which were sold out by 1700.

The young lady newsseller said that they had read the TA KUNG PAO reporter's story in WENZHAI BAO, but that it had proved to be false upon investigation, because copies of RENMIN RIBAO were left over that day and had not been sold out.

In response to the reporter's question about whether she liked to read RENMIN RIBAO, the young lady shrugged her shoulders, shook her head, and whispered that she did not like it because it was too serious.

As the meaning of this "too serious" is certainly not clear, just take a look at how thoroughly it was described in the following article by a well-qualified RENMIN RIBAO editor:

If news is not up-to-date, it not only does not live up to its name, but also cheats readers. All readers who pick up a newspaper, from an 80-year-old gentlemen to eight-year-old children, and from college professors to the "vagrants" on the streets, want to read something new. But if they turn pages one to four, and then through pages five to eight, and find nothing new, how can they be blamed for cursing? Some newspapers are known as "two-minute papers" and others as "five-minute papers," so how could it not bring grief to those who run newspapers that readers' interest does not last beyond two or five minutes for a grand newspaper of four to eight large pages and tens of thousands of words. But this is certainly an inescapable reality, as even those papers that are generally thought to be good ones are actually read conscientiously by only a few, who do so only to relieve their boredom when waiting for buses, people, or meetings to begin, while no one is willing to pick up a newspaper to do anything more than just kill time! One elderly editor went home and grumbled at his wife about her cooking always being the same old unappetizing round of "rice and steamed buns, steamed buns and rice, cabbage and stir-fried pork, and stir-fried pork and cabbage." In response to his question about why she did

this, his elderly wife replied sternly that "I learned it from your newspaper. Doesn't your paper offer the same old menu every day too?"

There are naturally many reasons why major news publications cannot be found on retail markets. As there are so many public subscriptions, why would anyone buy them with their own money? But whether the stories in major news publications are enticing is a big question that leads to deep thought. This qualified RENMIN RIBAO editor's remarks can be taken as bitter medicine and good advice.

While such self-dissection is naturally painful, if we are afraid to acknowledge and face up to even this essential reality, how could we be thought of as materialists?

The Published Statistics Are Both Merciless and Impartial

The Chinese press market has been expanding very quickly in recent years, with a "new paper" coming out every two and one-half days. The number of Chinese newspapers had grown to 1,755 by October 1992, with more than 100 new ones having emerged around New Year's Day 1993.

Liang Heng, [2733 5899], director of the Newspaper Department of the State Council Press and Publication Administration, notes the following: The increase in numbers is only one aspect of our press prosperity, with the more important change coming in newspaper functions and structures. The Chinese press has already changed from the past single-purpose party committee organization reports to a diversified and multifunctional newspaper complex in which party reports are just one major factor.

It is understood that in this huge newspaper complex, trade and business papers are the biggest in number at about 800, with light and vivid, public- and consumer-oriented evening papers, digests, and consumer-service newspapers expanding at the greatest rate.

While news publications, such as CANKAO XIAOXI, RENMIN RIBAO, ZHONGGUO QINGNIAN BAO, BAN YUE TAN magazine, and LIAOWANG ZHOUKAN, are the major publications, the developing trend is toward evening papers gaining the "upper-hand" momentum.

In the fifties, only China's four large cities of Beijing, Tianjin, Shanghai, and Guangzhou had evening papers. While cities, such as Chengdu, Xi'an, Zhengzhou, and Hefei, were also putting out evening papers by the sixties, our pre-Cultural Revolution national evening paper publication volume was still less than 1 million copies.

During that decade of chaos, our evening papers were all "closed down," with not even one being lucky enough to escape. It was only after the Third Plenary Session of the 11th CPC Central Committee that evening papers began to resume publication in places, such as Guangzhou,

Beijing, Shanghai, and Tianjin. By 1989, China had 43 evening papers with a publication volume of over 10 million copies.

The news came out in early 1993 that the publication volume of the over 60 evening papers throughout China had topped 20 million copies.

Unlike certain party and government organizational reports that depend on "official documents" to mandate subscriptions by subordinate units, or certain trade papers that also assign subscription quotas level by level, most of these evening papers rely on readers' voluntary purchase and subscription or retail purchases.

Perhaps it was precisely due to the lack of such preferences that the editors of evening papers came to understand the role of markets earlier.

This skyrocketing increase in the publication volume of China's evening papers explains at least the two facts that 1) ordinary Chinese citizens certainly do not dislike reading newspapers, and 2) newspaper editors must pay attention to readers' demands.

Newsellers Say That They Will Not Take "Papers That Do Not Sell," While Newsbuyers Say That They Will Not Buy "Ones That Are Not Interesting"

Chinese subscriptions to newspapers had been mostly at public expense for decades, with subscribers not having to pay themselves, but being able to subscribe in a sort of closed-eye fashion in line with the "orders" issued by the pertinent sectors, and those who ran newspapers feeling that people would subscribe anyway, so slowly evolving a mindset of "not having to worry about finding someone to marry (subscribe to) the emperor's daughter (newspapers)." But a change has slowly occurred since, in which book and newspaper fees were first turned over to the individual, then press prices were raised and administrative funding was cut, which in addition to the sharp increase in expanded editions and press options, has brought a sense of crisis to press operators.

While major press publications adopted the two general tactics to deal with this crisis of dependence on executive orders and rewards to publishers, tabloids and minor press publications could not take this route, so took the "second-line" approach of retail sales at post offices, with a linking network of streetcorner newsstands, which grew and prospered together. So in the cold January winter at Beijing's Xuanwumen intersections, old Auntie Chen Beiman with her husband and their unemployed youngest daughter have set up three newsstands. She says that they get mostly the evening papers, of which they can sell about 600 a day. She goes on to say that while they used to sell 200 a day each of BEIJING QINGNIAN ZHOUMO and NANFANG ZHOUMO, they take only 80 each now because the weather is so cold.

In response to the question "why newsstands sell only tabloids and not major publications," Auntie Chen says

crisply that I can't take papers that will not sell, end up on my hands, and cause me losses! As people buy papers with their own money, they naturally choose the ones that they like. I take more of those that everyone likes—I have this independent decisionmaking power!

The Beijing subway's Fuxingmen station is a transfer point for the numbers one and two lines, with a passenger flow higher than 100,000 an hour at peak times. Miss Guo, a Fuxingmen station newsseller, briefed me as follows: Our "hottest" sellers are evening, TV, and weekend papers, with our three best-selling weekend papers being BEIJING QINGNIAN ZHOUMO, NANFANG ZHOUMO, and ZHONGHUA GONGSHANG SHIBAO ZHOUMO. At the two newsstands that we run on Saturdays, on the upper and lower levels at Fuxingmen station, all 2,500 copies of BEIJING QINGNIAN ZHOUMO are "sold out" by 1700. Miss Guo's operating style is the same as Auntie Chen's, i.e., taking more of those that sell well, and not taking those that do not move.

As newssellers are so "shrewd," what about the "calculations" of newsbuyers?

While most of the newsbuyers at streetcorner newsstands are young people, let us first hear from the middle-aged and the elderly:

Alongside one of Auntie Chen's newsstands at a Xuanwumen intersection, we met a Ms Xu who works for the China Trust Company, and who claims that she just has to buy BEIJING QINGNIAN ZHOUMO and NANFANG ZHOUMO every Saturday.

Ms Xu's office subscribes to the four papers of BEIJING RIBAO, CANKAO XIAOXI, HONG KONG TA KUNG PAO, and HONG KONG SHIH PAO. While Ms Xu praises BEIJING RIBAO's expanded and revised editions since July 1992, she likes CANKAO XIAOXI even better. She believes that the defects of the major news publications are that they "simply echo what others have said" and are "dull." But her assessment of the two weekend papers that she was holding is that they are not obsolete and give one a sense of innovation.

Ms Xu is a college-educated "high-level" reader who is over 40 years of age.

Mr. Li is an elderly senior correspondent (professor-level) who is retired, but still likes to read the newspapers. As his office subscribes to many publications, such as RENMIN RIBAO, CANKAO XIAOXI, JINGJI RIBAO, LIAOWANG, and BAN YUE TAN, Mr. Li's news-purchase "targets" are very clear. On Mondays, he buys the TV papers for both China and Beijing, because they each have different articles. On Saturdays, he buys the weekend papers, both BEIJING QINGNIAN ZHOUMO and NANFANG ZHOUMO, assessing them as being new in concept, vivid in layout, and quite readable.

With such an evaluation from an elderly correspondent, need we go on to ask the views of young people?

So it seems that the editors of our major press publications should ask themselves the following questions: In the midst of such vigor, why do our publications always seem so insipid? As we spend our days scurrying about in offices, dawdling at meetings, and copying data, cannot we put out newspapers that people would like to read? Why are the new real-life events that are occurring every day and hour rarely seen in our papers? Why do we provide so few answers to the questions that the public is interested in? Is not such dull and stereotyped reporting simply propaganda? Should not even one aspect of a thousand of our papers be changed?

Propaganda is also a kind of service to readers which, if done well, readers will like, and vice versa, just like products that can pass the test of market excellence only if they have real quality.

What Are the Secrets of the Success of the Chinese Tabloids?

While all newspaper readers in Beijing are now familiar with BEIJING QINGNIANBAO, its editor-in-chief Chen Ji [7115 0370] still calls it a "tabloid." So let us look at the "rise to fame and fortune" of this "tabloid" through his eyes as follows:

BEIJING QINGNIANBAO started publication in the 50s under the auspices of the CYL Municipal Party Committee, resuming publication in July 1981 first as a weekly and the next year as a bi-weekly (two editions a week). It started publication of ZHONGXUE SHISHIBAO and XINGXING HUOJUBAO in 1988, QINGNIAN ZHOUMO in January 1992, and XINWEN ZHOUKAN in January 1993, putting this newspaper office of over 200 people in charge of running five newspapers.

You would not believe the troubles we had at first. When going out on interviews, reporters had to pinch off the two characters "BEIJING" on their press credentials, saying vaguely that they were from QINGNIANBAO.

BEIJING QINGNIAN ZHOUMO editor-in-chief Guo [6753] said candidly that: we are still experiencing difficulties, having to rent underground offices, and conducting interviews as delegates to the party congress, which is the status of reporters for major publications but not ours.

So it seems that these "tabloids" really had no advantages. As it would obviously have been impossible for them with such disadvantages to compete with others' advantages, they took the different approach of: you write your news from above, and we will write ours from below. So while reporters from the major news publications were wasting their time holding meetings and copying documents, they were becoming reader-, public-, and consumer-oriented, catching a great "live fish" from

public life. This so-called "live fish" was the news that the public, particularly the young, were interested in.

When the piano prince Richard Kreidman came to perform in Beijing, this was big news to young people. BEIJING QINGNIANBAO reporters kept watch on site, so that they could write their reports and develop their pictures as quickly as possible. They printed a full-page photograph of Richard, which was taken so "quickly" and displayed so "boldly" that it naturally seized the hearts of young readers.

Young people are also interested in China's reform advances. As the 14th CPC Congress was just closing, a full-page article entitled "Deng Xiaoping and the 14th CPC Congress" appeared in BEIJING QINGNIANBAO. Even without reporters credentials to cover the 14th CPC Congress, this comprehensive article was still made accessible to young readers. As to BEIJING QINGNIANBAO's explosiveness, some have objected strongly, calling it just too vulgar and unrestrained!, while others snort indignantly that these objectors are central agents who were allowed to open their "mouths" a little too wide. The public rejects these objections, while the Central Ministry of Propaganda denies the rebuttal. "Unrestrained" is simply getting free of conventions, and are conventions necessarily right?

Whether some people agree or not, newspapers that are bought and sold have commodity value. While they are naturally different from ordinary commodities, being spiritual products that should arouse a fighting spirit to encourage the public to struggle for a prosperous nation and a strong country, a prerequisite for achieving this is that they be welcomed by readers. It is irresponsible for those who run newspapers not to care whether readers welcome their papers or not.

Concern over readers' reception is concern for markets, which is perhaps like a factory's concern about whether its products sell well.

In a word, the secret of the operating success of BEIJING QINGNIANBAO and many other well-received weekend editions and digests is concern for markets, satisfaction with markets, and a full market mindset, on which their new contents and layouts are based.

In the words of BEIJING QINGNIANBAO editor-in-chief Chen Ji, we have been forced to take a path less travelled, which has brought us to realize how vast are the horizons.

What Are the Major Chinese News Publications Doing To Catch Up?

While major news publications not being able to get onto newsstands might have been self-indulgently considered to be "out of fashion" three years ago, reader disapproval three years later today makes it impossible for any editor or reporter of a major news publication to continue to "keep his composure."

One reporter for a major publication asked about 100 people who he met at random in many places, such as at newsstands, on subways, at news conferences, and in his paper's editorial department, which papers they most disliked, the response to which was that all of the major publications were "most unwelcomed."

Why is this so?

Most major Chinese publications have long consisted of four large pages folded in half, with the contents of these "major publications" usually being releases of party and government principles and policies and mechanical and even exact copies of largely identical important domestic and foreign news.

News of conferences and leadership meetings and receptions take up most of their space, while having very little substance. Ritualistic phrases take the place of genuine news. This is what has left them all looking alike. During the Cultural Revolution, the "tabloids" copied the major publications, which in turn copied each other, leading to even greater conformity.

While this similarity and conformity have broken down in recent years, with all major publications publishing more from "their own sources," a close look shows that their flavor has certainly not changed much, being nothing more than a change of cook who puts out the same old tasteless food. In addition, the growing intensity in recent years of "advertisements, favors, connections," and "sold" articles shows that the potential "crisis" for major publications has actually long been obvious to all.

The market awareness of the tabloids has brought them better social and economic efficiency, which our major news publications have noticed. While they may not have been very interested in this at first, they were forced before long to come down from their high horses and learn from the tabloids. The numerous revised and expanded editions of major publications are clear proof of this.

In 1993, many papers, such as JINGJI RIBAO, GUANGMING RIBAO, and CANKAO XIAOXI, have expanded from 1992's four pages to eight. While RENMIN RIBAO has not yet put out an expanded edition, it has begun to publish periodicals, such as DA DI, SHIDAI CHAO, and HUANJING WENCUI, as well as having started to print a full-page "weekend" article every weekend. ZHONGGUO QINGNIAN BAO has been expanded to eight pages three times a week, putting out three new "papers within a paper." All provincial party papers have been unwilling to be left out, with statistics showing that one-third of provincial papers have expanded to eight or even 12 pages a day in January 1993.

These editions have naturally been expanded to add content. As to what content has been added, it is easy to discover by leafing through a paper that most of the added contents are social news, cultural news, short

literary and historical essays, and general consumer knowledge. Why has such content been added? Because the public likes it.

Zong Chunqi [1350 2504 0796], one of those in charge of BEIJING RIBAO's "Weekend in the Chinese Capital," particularly emphasized in an interview with a reporter that "today, a newspaper's commercial value can no longer be ignored."

While the major papers are not changing much in 1993, they are doing so steadily, with ZHONGGUO QINGNIAN BAO being one to watch. Its domestic deputy director, Yang Lang [2799 3186], says that it plans to expand in two steps, with step one being first expanded editions three days a week on Tuesdays, Thursdays, and Saturdays in 1993, and step two being expanded editions on Mondays, Wednesdays, and Fridays in late 1993 or early 1994. Opening a 1993 copy of ZHONGGUO QINGNIAN BAO certainly gives one a sense of innovation, with Tuesday's "Economic Blueprint," Thursday's "Social Week," and Saturday's "Consumer Special" each having its own distinctive charm.

In my interview with Yang Lang, I also found out certain "inside information."

The editors-in-chief of the three special editions on Tuesdays, Thursdays, and Saturdays were recruited from within the ZHONGGUO QINGNIAN BAO NEWS AGENCY. All enjoyed equal hiring rights, with the only condition being that they had to present their own "administrative programs." Respondents could be hired immediately upon the approval of the editorial and party committees. Once the "editors-in-chief" were determined, "two-way options" have continued, with the agency's reporters and editors being able to sign up with the editors-in-chief, and editors-in-chief having the authority to choose at will from among the entrants. The "bosses" have the authority to fry their "subordinates" fish, while dissatisfaction by two-thirds of "subordinates" gives the power to impeach the "boss." These provisions were not only publicized, but also written into contracts.

Yang Lang became editor-in-chief of SHEHUI ZHOUKAN through competition. He says that in order to run this social page well, he and his colleagues have not only worked very hard on content and layout, but also have gradually gained a better sense of market operating forces.

If they take such a "path," will not our major publications also be able to win more readers?

Is "A Silent Revolution" Taking Place?

So the Chinese press has acquired a stronger market awareness and begun to refurbish its contents. Some say that this is a "profound revolution," while others hold different views.

Our view is that our press reform seems to have just begun. This is because our current news circles have done nothing more than simply break a little new ground and add certain contents that readers like in the areas of news variety or boundaries. What our press really needs to work on is writing political, economic, international, and foreign affairs reports that readers will like to read. Regretably, it is precisely in this area that our press still lacks muscle.

There are even more alarming tendencies.

An official in our Press and Publication Administration sighs that while the approval rate for new publications has accelerated sharply, reports on applications for new papers are forever piling up on his desk like a "small mountain." Such unchecked expansion with regard for neither subjective or objective conditions to weekend and expanded editions, and then lock, stock, and barrel to larger expanded editions and publications, is not necessarily a good thing. Wang Qianghua [3769 1730 5478], deputy director of the State Council Press and Publication Administration, sincerely advises us that what merits attention in the Chinese press today is a certain tendency toward an unchecked attempt to keep up with the competition.

BEIJING QINGNIAN BAO editor-in-chief Chen Ji spoke in greater detail, by pointing out the following three major problems that will be bound to be encountered by all papers after the current general expansion: 1. As it will be impossible for the press market to "grow up" quickly, it will be hard for all papers to increase their publication volumes sharply. 2. Despite the space multiplication, as it will be impossible for the ranks of writers to "expand" quickly, the phenomena of two or three submissions of one article and even "marrying off of one daughter eight times" are bound to increase and result in intentional press plagiarism or unintended collisions. 3. The general expansion is bound to sharply push up the price of paper, which will affect all publications.

JINGJI RIBAO editor-in-chief Fan Jingyi [5400 2417 1355] warns of another aspect: Market economy development is turning newspaper expansion into an inevitable trend and promoting press change and growth, which is historical progress and a good thing. What we need to watch out for is that this expansion will tend to make our newspapers more like advertisements, magazines, and tabloids (pandering to low tastes).

It seems that a "general" source of this trend is a misunderstanding of what it means to be market-oriented, which is being driven by narrow economic interests. Thinking that being market-oriented is simply giving readers what they want, or even striving to meet the unhealthy demands of some readers, will be bound to vulgarize our solemn press.

It is unfair to complain simply about the "tabloids," which are not necessarily the lowest in taste. A look at today's weekend editions of major publications shows

they are soliciting customers with talk about sex, teasing about nudity, and nude photographs, which is arousing reader discontent. Such ways of running newspapers are not genuine reform, because they will discredit reform and cause chaos.

Another source of this trend is the tendency to take the easy way out by avoiding difficulties. The key to the press becoming market-oriented is improvement of news reports per se, which is precisely the most difficult. Taking the easy way out and losing ones roots, by

focusing ones efforts on knowledge about and interest in sex, will naturally lead to newspapers becoming more like magazines.

In addition, expanded space without enough content shows up the problem of press article expansion. Little content with much exaggeration will ruin readers' appetites.

So it seems that the press certainly has to change, and certainly is changing, its ways of thinking. It is hoped that our press reform will accelerate and expand, but will do so in a healthy and sustainable way.

NATIONAL AFFAIRS, POLICY

Zhang Zhuoyuan on Socialist Market Economy

93CE0280A Chongqing GAIGE [REFORM] in Chinese
No 1, 20 Jan 93 pp 11-20

[Article by Zhang Zhuoyuan (1728 0587 0337): "Accelerate the Development of a Socialist Market Economy"]

[Text] In October 1992 the 14th CPC National Congress affirmed the goal of economic restructuring in China as establishing a socialist market economy. This quantum leap in ideological understanding shows that Chinese economic restructuring is now under clear and full theoretical guidance. A new look in socialist modernization will certainly emerge.

Driven by the important speech delivered by Deng Xiaoping when he inspected the south and the 14th CPC National Congress, economic development in China picked up steam appreciably in 1992, with the gross national product expanding possibly 12 percent or so for the year and the growth momentum remaining strong. To enable the economy to generate endless new energy and enter a "benign cycle," breaking the old boom-and-bust cycle, we must speed up the creation of a socialist market economy and make new substantive progress in reform and in opening China to the outside world. Use reform and the open policy to help stabilize and develop the economy, put the market mechanism to full use in optimizing resource allocation, and improve national economic performance.

1. Building New Socialist Market Economy Is Still Arduous Task

After 14 years of reform and opening itself to the outside world, China has made progress of a breakthrough nature in moving from a centralized planned economy to a market economy. The market economy has penetrated many areas of economic life, playing a more and more extensive role. In some areas, such as the formulation and movement of the prices of commodities and labor services, the market mechanism is now the leading factor. In some places such as special economic zones and other coastal open cities, economic activities are now being regulated by the market. Some economies, such as the three kinds of enterprises that are either partially or wholly foreign-owned, private enterprises, individual enterprises, and township and town enterprises, are basically being operated in accordance with market economic principles. Since reform went under way, the Chinese economy has become increasingly energized, the market is flourishing, and the people's lives have been enriched, all thanks to the use of the market mechanism.

At the same time, we must soberly see that China today is still in a stage where old and new institutions coexist. While the new order is expanding steadily in both breadth and depth, it is not yet the dominant force in the economy. Although many holes have appeared in the

traditional planned economic system, the system has not yet been dethroned. In some areas (such as investment), some places (such as certain inland provinces and regions,) and some economies (state economy, for instance,) it still plays a powerful role. Thus assumptions that the new economic system is already the dominant or leading factor in the economy and that radical changes have occurred in the coexistence between the dual systems may be overly optimistic. The fact of the matter is that the task of economic reform facing us remains an arduous one. The framework for a socialist market economy has yet to be created. Much work awaits to be done in reform and opening China to the outside world, urgently in some cases.

The biggest hurdle facing us now in the transition from the old to the new is price reform with its myriad problems, as predicted by some economists a couple of years back. Ironically our biggest problem right now is enterprise reform, particularly reform of large- and mid-sized state enterprises, which some comrades had thought would be smooth sailing. Several years after the government began delegating authority to them and allowing them to retain profits, large- and mid-sized state enterprises, still the leading players in the national economy today, have shown the first signs of revitalization, demonstrating more and more the independent nature of their interests. Be that as it may, their operating mechanism has not been overhauled properly. The interest stimulating mechanism has not been accompanied by an interest restraining mechanism. Moreover, they assume responsibility only for their own profits, not losses, and run to the government departments in charge for help whenever they encounter difficulties. The government and departments in charge, for their part, also keep a tight leash on the enterprises and balk at giving them more power, making it difficult for the latter to go ahead freely to orient themselves to the market and participate in market competition. The upshot is that the old mechanism has not been overhauled properly. Enterprises which do well are rewarded but those which do not are not eliminated. Rights do not go hand in hand with responsibilities. Naturally the state economy cannot compete with the more dynamic nonstate economy. Nothing demonstrates this more clearly than the fact that enterprises owned by the whole people accounted for 54.6 percent of the gross value of industrial output of all society in 1990, down from 77.6 percent in 1978, slipping two percentage points each year on the average.

There are many reasons why state enterprises have not been able to overhaul their operating mechanism. Looking back now, it seems the most important reason is that the reform philosophy has not been clarified. For years those in enterprise reform were only concerned with delegating power to the enterprises and allowing them to retain profits and seldom bothered with the development of new mechanisms. In selecting a reform plan, the focus was on solving immediate problems and on short-term interests, without paying sufficient attention to long-term goals. This is true about the two rounds

of substituting taxes for profits, not to mention the widespread adoption of the contract system. At a time when price relations had not been straightened out, the market system was less than perfect, and the playing field had not been leveled, the contract system was a realistic choice to reduce some administrative interference by the government in enterprises and separate ownership from management properly. To a certain extent it has mobilized the enthusiasm of factory directors and employees for production. Nevertheless, the contract system has yet to transcend the framework of the traditional system. In some ways it has actually strengthened the fusion between government administration and enterprise management. For instance, one-on-one bargaining between government departments in charge and the enterprises under them continued to be the operating mechanism. Intent on maintaining their existing product mix and content to rest on their laurels, enterprises behave in a short-sighted way, raising workers' wages too fast and eating away at state properties. Because of its inherent weaknesses, the enterprise contract system has moved enterprises further and further away from, instead of bringing them closer to, what they should aim to be: independent leading players on the market, commodity producers and operators which enjoy decision-making authority in their operations and are responsible for their own profits and losses. Now that we emphasize overhauling the enterprises' operating mechanism and turning them into truly independent players on the market, we must change the philosophy of enterprise reform. Instead of clinging to the old contract system, we need to look elsewhere for a new reform philosophy suited for the development of a socialist market system and experiment and practice boldly in an all-out bid for new progress and breakthroughs.

A daunting task awaits us also on the price reform front, where substantial headway was made in the past couple of years. As the Chinese economy gradually becomes a socialist market economy, the importance of and need for price reform involving elements of production take on particular prominence. The most outstanding characteristic of a market economy is the role of the market as the chief allocator of resources, its market-orientation, and the channeling of scarce economic resources in society from inefficient sectors and enterprises to their more efficient counterparts, thereby enhancing the efficiency with which resources are allocated and speeding up economic development. A prerequisite for the free and rational circulation of resources is the commercialization of elements of production and their circulation on the market at prices determined by the market. During the 1980s, as market-oriented reform gradually went under way, we came to realize that the prices of elements of production must be formed by the market if they are to be commercialized and freely circulate on the market. But price reform for elements of production has barely begun and progress has been slow, lagging notably behind price reform for commodities and labor services.

This is also an important reason for the lack of significant progress in the adjustment of the industrial structure more recently. The reform of prices of elements of production, it can thus be seen, is still an arduous task in the 1990s and will become the focus for continuing price reform.

The lag in price reform for elements of production has something to do with the tardiness in developing a market for them. The capital market, labor market, land market, and foreign exchange market—all of them are still in their infancy generally speaking. Compared to the relatively developed merchandise market, particularly the consumer goods market, these markets have fallen behind badly. Yet there can be no truly competitive market system if it lacks a market for elements of production or if the market system is not unified, open, competitive, and has the necessary rules and regulations. Without a competitive market system, the socialist market economy cannot operate and develop smoothly.

In short, in two of the most essential links or main lines in economic restructuring, namely enterprise reform and price reform, many hurdles remain to be overcome. We must launch and win a major offensive if we are to really put the coexistence and confrontation between the two systems behind us.

2. Work Hard To Find a Way To Change the Operating Mechanism of State Enterprises

At present the focus and sticking point in Chinese economic restructuring is the transformation of the operating mechanism of state enterprises, particularly large- and mid-sized state enterprises, so that they become genuinely independent participants on the market, leading players on the socialist market with decision-making authority in their operations.

Some comrades are skeptical, even pessimistic, about whether state enterprises can be put on a sound footing and whether their operating mechanism can be transformed. They favor letting the state economy die a slow death or wither away gradually while concentrating on the vitalization of the nonstate economy. After the nonstate economy has taken off, they argue, we can then force the state economy to orient itself to the market and seek to survive and develop through competition on the market. Their main rationale is that it is the development of the nonstate economy that has mainly enabled the Chinese economy to prosper and the market to flourish in the past 14 years. In the future, so the reasoning goes, we must continue to go down the same road.

I think this matter deserves some careful study.

By using the market mechanism more fully, the nonstate economy has indeed developed by leaps and bounds in the last decade to become the engine of growth for the entire national economy. Hamstrung by all sorts of restrictions, the state economy has proved difficult for the market mechanism to penetrate. Despite a host of

attempts at reform, therefore, the nonstate economy on the whole still lacks vitality and is uncompetitive, its operating mechanism not yet transformed properly. With its litany of shortcomings, the future of the state economy looks gloomy. Nevertheless, when we consider that the state economy, particularly large- and mid-sized state enterprises, remains the dominant force in the national economy and contains much of the material and technological foundation and that what we are pursuing is a socialist market economy based on public ownership, we cannot turn our backs on the state economy and let it wither away slowly. Instead, we must make a major resolve to overcome the worst difficulties there are and find a way to transform the operating mechanism and revitalize it. Not only that, we must also refocus our attention and our work on the state economy and introduce the market mechanism into the state economy so that state enterprises cease to be the appendages of the administrative bodies at the higher level and become commodity producers and operators which have decision-making authority in their operations and are accountable for their own profits and losses, independent players on the market in their own right. That way the state economy will compete on a level playing field with the nonstate economy, surviving and developing as well as fulfilling its leading role.

The issue of how to change the operating mechanisms of state enterprises and smooth their entry into the market has been much studied by all parties. The government too has promulgated the "Regulations on Changing the Operating Mechanism of Industrial Enterprises Owned by the Whole People," now being gradually implemented. It was widely thought that the key to putting the regulations into effect was changing the functions of government organs and stopping their interference and meddling in the day-to-day operations and activities of most enterprises. The existing "father and son" relations must be severed to free the enterprises from the grip of the planned economy and steer them toward the market economy. For their part, enterprises must wean themselves in earnest, which means not running to the government for help—infusion of funds—when they are losing ground to their competition as well as cutting their ties with the government department in charge when they are making a profit on the market.

An important way to change the operating mechanism of large- and mid-sized state enterprises is to implement the shareholding system while clarifying property rights relations at the same time.

It means that the key to transforming the format of socialist public ownership is to clarify and straighten out property rights relations and put an end to the existing anomaly of nobody being held accountable for state properties. The properties of state enterprises belong to the whole people, but the management, supervision, handling, and use of such properties must be separated from one another. State properties must be evaluated properly through property appraisal and a determination made as to who should be held responsible for them.

Separating property ownership from its management would give state enterprises decision-making authority in their operations, hold them responsible for their own profits and losses, and encourage them to practice self-development and self-discipline.

Except for a tiny handful of enterprises (such as those in key military industries and others at the cutting-edge of science and technology) that must continue to operate under a state monopoly, consider converting large numbers of large- and mid-sized state enterprises into shareholding enterprises, using such formats as the shareholding limited company and the company of limited liability. For some enterprises, the state can be the majority shareholder. In enterprises that are of no special importance, the state can also be a shareholder. As for the vast number of small state enterprises, they can be converted into cooperative shareholding enterprises. Another alternative is to turn them into collective enterprises, partnerships, or enterprises solely owned by a private individual by auctioning off or transferring properties. Yet a third option is to convert them into state-owned privately-run enterprises through leasing. The foremost objective of increasing the number of shareholding pilot projects and practicing the shareholding system, it must be made clear, is not to pool funds more efficiently (although this is one of its primary functions), but to separate government functions from enterprise functions and transform the operating mechanism of enterprises. The creation and development of the stock market must be based on the widespread adoption of the shareholding system. Once shareholding enterprises start emerging in large numbers, the stock market (whether it be the issuing market or circulating market) will naturally develop over time and gradually mature.

For now encourage state enterprises to orient themselves toward and enter the market. All industries, trades, and enterprises that enter the market must be able to compete with one another on a level playing field. Those who are among the first to enter the market and build themselves up in a hurry may show greater initiative. How to steer state enterprises toward the market? Experiment boldly and let everybody use its ingenuity. Some localities have begun experimenting with enterprises sans mothers-in-law (departments in charge at the higher level). Others are applying the management practices of the three kinds of enterprises that are either partially or wholly foreign-owned in some state enterprises. Yet others have let a number of large and mid-sized state enterprises put together Sino-foreign joint ventures, etc. The possibilities are endless. It seems that the greater the experimentation here, the more likely we are to find a good recipe to help state enterprises enter the market soon. The international experience is that state enterprises are not doomed to inefficiency. Those state enterprises that actively participate in market competition on a level playing field are capable of achieving efficiency. The only way Chinese state enterprises can gradually shed their inefficiency, which has trapped them in a

bind, and embark on the road of healthy development is to actively take part in international and domestic competition on equal terms.

3. Government and the Market Each Discharge Their Responsibilities and Work Together To Facilitate the Smooth Functioning of the Socialist Market Economy

Before the socialist market economy can operate smoothly, we must first of all sort out the relations between government and market. Since we are trying to put together a market economy, the market mechanism must be allowed to be the basic allocator of resources and economic activities must be dominated by market regulation. At the same time, the market mechanism is not omnipotent, as many market-oriented nations have learned too well in the course of economic development. It cannot achieve the optimal allocation (so-called Pareto efficiency) of resources to the full across the board. There are other ways in which the market fails or does not work. For instance, some economic activities may benefit the major economic players but hurt the interests of outside parties and society by causing environmental pollution, for instance. It would be inadvisable for the production and management of public goods (common goods) to be market-oriented. The operations of the market economy tend to disrupt the macroeconomy and lead to a crisis. Competition breeds monopolies, inequitable income distribution, and bipolarization. In these and other situations where the market fails to work, corrective and supplementary government actions are needed. In other words, what we need is guidance by the government as well as macroeconomic regulation and control. Certainly government intervention comes at a price, and not a small one at that. Moreover, it is a strong possibility that government intervention itself may not work. Thus when any country prepares to regulate or control the macroeconomy or correct a market failure or malfunctioning, it must exercise extreme care and strives to make the right policy choices that conform with rationality. As we develop the socialist market economy, we must learn from the experiences of other market-oriented countries properly. On the one hand, we must make the most of the "invisible hand" to spur all leading economic players to better efficiency. On the other hand, we must use the "visible hand" to correct market failures and regulate the macroeconomy. Public ownership is paramount in socialist countries; the state has vast material resources at its disposal. The interests of the masses are basically the same. All of this will help make government regulation and control and its intervention to correct market inefficiency more effective and successful.

Not only that, but there also must be planned guidance for economic activities on the market in socialist countries. Macroeconomic regulation and control targets short-term imbalances in the overall economy while planned guidance has to do with the long-term economic development strategy and goals. International experience shows that formulating appropriate long-term development strategy and goals is most critical to the

sustained and effective development of a nation's economy. China's three-step economic development strategy, for instance, belongs in this category. Guided by the long-term development strategy, we also need to formulate a five-year plan (such as the Eighth Five-Year Plan) and 10-year plan (such as the development plan for the 1990s), as well as a corresponding industrial policy and foreign trade policy, pointing up a direction and vista for national economic development.

The issue that needs to be examined more closely here is this: China being a large developing socialist country, what role should the government really play in developing a socialist market economy? Will it do if the government merely functions as a "night watchman" or "arbitrator?"

According to the tenets of mainstream developmental economics, the government of a developing nation has important roles to play—as investor and entrepreneur—during the economic take-off stage when the market mechanism is less than perfect, the social infrastructure remains backward, and there is a dire shortage of materials, entrepreneurs, and professionals. The experiences of some countries such as Korea has borne out the validity of this theory. However, there are other nations where the same theory has not been applied with the expected success. In the latter countries, the government might operate on a larger and larger scale, yet investment returns kept declining and corruption ran rampant. It seems that there are two major reasons for these problems. First, in the course of participating directly in resource allocation, the government often over-extends its responsibility as an investor and manager. Not content with its role in developing the social infrastructure and other strategic industries that impact the whole economy, the government often takes on a lot of regular productive investment, basically involving itself in the day-to-day operations and activities of many enterprises from which the bureaucrats profit themselves by abusing their public office. Second, excessive direct control by the government hampers the maturation of the market by preventing it from living up to its role—guiding resource allocation—and stunting the development and blossoming of enterprises brimming with an innovative spirit.

We should value the above-mentioned experiences as we ponder how the government should stake out its proper position and play an active role in developing a socialist market economy. The need to define government responsibilities and reshape government functions is never greater than now when the old mechanism is giving way to the new. The key to sorting out the relations among the government, market, and enterprises is for the government to give up meddling in things it should not concern itself with and concentrate its energies on doing a good job in planned guidance and macroeconomic regulation and control. The government must radically cut down on its responsibilities as an

investor and manager and strictly confine itself to the social infrastructure and those strategic industries that impact the entire economy.

In addition, the government must work hard to nurture and build up the market. Basic to the smooth functioning of a socialist market economy are the maturation of the market and the establishment of a market system that is unified across the nation and open domestically and internationally, offers a level playing field, and has a comprehensive set of rules and regulations. Much work needs to be done, certainly much more than just establishing all sorts of markets in all locales or adding better infrastructural facilities for circulation. Even more daunting may be the dismantling of regional blockades, the elimination of sectoral separatism and monopolism within a trade, the creation of a market order that includes a comprehensive legal system and uniform rules and offers fair competition, the linking of the domestic market with the international market, and the formation and maintenance of a limited buyers' market. Clearly, all this requires the deepening of reform and a total elimination of the shortcomings of the traditional system.

Let us describe just one of them here. In the late 1980s, China adopted a system under which revenues are separated from expenditures as well as level-by-level contracting. These changes successfully mobilized the enthusiasm of the localities to find additional revenue and cut spending at the local level and temporarily eased the problem caused by a sluggish growth in revenue. At the same time, however, they have intensified localism. With local governments owning and operating enterprises, local budget contracting has prompted local governments not only to scramble to improve local living conditions, as has happened in some Western nations, but also to go all out to improve the overall conditions of production and the entire economy in their jurisdictions. To promote local interests, local governments are given to investing in expensive profitable projects that are "short, level and speedy." They have a preference for processing industries, leaving the state to bear the burden of developing low-cost low-profit basic industries. As the industrial structures of all provinces "converge," the upshot is project and import duplication. Take a look at the pattern of industry of the various localities in 1989. Just about every province, municipality, and autonomous region had an industrial lineup consisting of these four major sectors: textiles, machinery, food, and chemical industry. The convergence of industrial structures not only does little to help a locality exploit its own special advantages, but will soon cause an oversupply of some products. To market its own products, some provinces and municipalities seal off their own markets and prevent outside goods from entering, which is a serious impediment to the formation and development of a national unified market. Some provincial and municipal finance and economic agencies have issued documents forbidding the entry of outside merchandise into the local market and impose fines on violators. In November 1989, for instance, a number of

provinces announced protectionist measures for 19 local products and blocked local commercial enterprises from purchasing elsewhere. Meanwhile, some provinces have banned by explicit order the entry of 48 outside products. In addition, when they experience shortages of energy, raw materials, and agricultural products in times of rapid economic expansion, some localities set up checkpoints to prevent local products in those categories from being shipped out. In short, the local budget contract system has become a major hurdle to the creation of a nationally unified, open, and competitive market system. If we are to create a competitive market system, we must reform the budget contract system by developing a new budget system that is compatible with the socialist market economy, such as a tax separation system.

4. Focus on Price Reform for Elements of Production in Future

Chinese economic reform in the 1980s concentrated on the prices of goods and labor. By combining adjustment with decontrol, with the former taking place first, price reform has been an enormous success. During the 1990s, particularly after it was affirmed clearly that the goal of economic restructuring is to establish a socialist market economy and use the market mechanism to optimize resource allocation so as to further enhance the efficiency of national economic activities, we must broaden even more the scope of price reform and continue price reform on various fronts. It seems that in the future we need to concentrate on price reform for elements of production while going ahead with price reform on other fronts as well.

The prices of elements of production essentially consist of interest on capital, wages, land prices, rents, and the exchange rates between the renminbi and foreign currencies. In accordance with the requirements of a socialist market economy, they all should be set and regulated by the market to prevent the most important of all market signals from being distorted and hindering the improvement of the efficiency of resource allocation.

Of all the prices of elements of production, the most essential is the interest on capital, the preeminent and scarcest economic resource in every market economy. If the market is to determine the prices of elements of production, we must first have the market set interest rates.

In a market economy, interest rates are the leading tool available to the government to regulate macroeconomic operations. To ensure stable, coordinated, and profitable economic growth, a socialist country must regulate interest rates. When the economy is overheated, for instance, it raises the rediscount rate and re-lending rate charged by the central bank and sells bonds (primarily short-term treasury bonds) on the open market to drive up interest rates on the market, check inflation, and retrench economically. On the contrary, when the economy is in a recession, the state lowers the rediscount

rate and re-lending rate charged by the central bank and purchases bonds on the open market to drive down interest rates on the market, stimulate investment and consumption, and bring about economic recovery and growth. However, the government or the central bank regulates interest rates mainly by adjusting the basic interest rates on the market, not by directly setting market rates and determining how much they are to move up or down. As for the interest rates commercial banks and other financial institutions charge their borrowers or pay to their depositors, the government must not meddle with them but give the market a free land in regulating them. Turning to the interest rates charged by enterprises and companies on short-term loans they directly make to one another, the government should adopt a similar hands-off policy. Also a distinction must be made between commercial banking and policy-based banking. If the national industrial policy calls for loans to be made to infrastructural projects and other major industries on preferential terms, the government may subsidize the interest rates. This is one way to distinguish policy-based banking from ordinary commercial banking.

It takes a process to have the market set interest rates, a process that is inseparable from the growth and maintenance of the financial market (money market and capital market). Only when there is a unified, open, and competitive financial market will there be fairly uniform market-regulated interest rates, and only then will market interest rates more accurately reflect the supply and demand of funds and the scarcity of funds. Wages are the prices we pay for labor. In wage reform, too, the thrust is to have the market set wages. In other words, wages should be formed through competition on the labor market.

In the past people consistently refused to recognize that in socialist countries labor could be converted into a commodity on the grounds that workers have already become the owners of elements of production and the public ownership of elements of production precludes the commercialization of labor. Looking back now, this is a one-sided theory. Even in a socialist society, labor remains a means of making a living and society must recognize that a person's productive capacity, which varies from individual to individual, is a "natural prerogative." The more productive a person is and the greater the contribution of his labor, the more he is entitled to earn. This in effect acknowledges a person's ownership over his labor capacity and his right to demand to be compensated according to work, in other words, his right to exchange of equal value between labor and wage. In a socialist society, therefore, it is logical to treat labor as a commodity and to commercialize labor. As reform continues, many state enterprises in China, particularly large- and mid-sized state enterprises, will gradually embark on the road of the shareholding system, becoming shareholding enterprises or companies where the state is a majority shareholder (with other shares held by employees) or where the state is a shareholder. In these enterprises, the workers sell their labor

to the enterprises as employees, so it is only natural for them to receive compensation in accordance with the principal of exchange of equal value. There should be no insurmountable barrier.

Having the market set the prices of labor is also a prerequisite for the transformation of enterprises into true commodity producers and operators which have decision-making authority in their operations and are responsible for their own profits and losses, and for their becoming leading players on the market. So long as labor cannot circulate and so long as workers have an "iron rice bowl," the quality of their performance being irrelevant, how can enterprises compete on the market? If good workers are not allowed to excel and bad ones cannot be eliminated, then good enterprises will not excel and bad ones will not go out of business. Nor will the market be able to function at all. Thus having the market determine wages, the price of labor, is an essential part of the transformation of the enterprise operating mechanism. Certainly, the regulation of wages—the prices of labor—by the market and the establishment and development of a labor market must be closely coordinated with the creation and gradual perfection of a social security system to ensure public confidence and social stability.

In the past, land, particularly urban land, was used free of charge. The result was that land, the scarcest of all resources and one that cannot be increased, was not used well or effectively, but was grossly wasted. Since reform began, the market mechanism has gradually been introduced into this area and land prices have begun to emerge, but many problems remain. Owing to accelerated economic development, the demand for urban land has soared and urban land prices have skyrocketed (mainly on the black market and grey market). Land speculators are increasing in droves and the upward pressures on land prices are enormous. China being a huge country, land prices vary greatly from city to city and even from one tract to the next in the same city, from a few yuan to tens of thousands of yuan per square meter. The formation of land prices is highly nonstandardized. To enhance the returns on land allocation and use, we must gradually introduce the market mechanism so that the prices of commercial land will be determined by the land market. Right now what is most important is the formation and development of a land market, including a primary market and a secondary market, to bring out the prices of this particular commodity and form relatively standardized market regulated prices so that national economic activities will be more efficient.

To develop a socialist market economy, we must open up to the outside world across the board and participate actively in competition on the international marketplace, linking the domestic market with the international market and operating in accordance with international practices to the greatest extent possible in all our economic dealings. This requires that the market be allowed gradually to set the exchange rate of the Chinese currency, the renminbi. Many nations put the deregulation

of the exchange rate of the national currency on the back burner in the course of transforming their economic mechanisms. Nevertheless, the deregulation of exchange rates after all is inherent in the transformation of economic mechanisms. The state should switch to relying mainly on economic tools as a means of intervention and regulation. To bring about this change, the government should adjust as appropriate the official exchange rate to bring it in line with the market exchange rate, preferably to within 10 percent up or down. On the other hand, it should develop the foreign exchange regulating market so that in time the state can get most of the foreign exchange it needs from the foreign exchange regulating market while resorting to administrative apportioning less and less and perhaps even eliminating it altogether. At the same time, it should gradually abolish the various restrictions on the entry to the foreign exchange regulating market, allowing every enterprise, every citizen to trade freely on the market. If we do a good job on both fronts, and develop foreign economic relations and trade, and increase foreign exchange reserves, we will approach our goal of turning the Chinese currency into a fully convertible currency. We should work hard for that.

To sum up, the focus of Chinese price reform in the future will gradually shift to the reform of elements of production. In places that lead the nation in reform, such as the special economic zones, for instance, elements of production have already become the focus of price reform.

At the same time, we cannot relax price reform relating to goods and labor. We need to keep plugging at the problem of price distortion, which still exists. We should promptly deregulate the prices of goods and labor that have entered the competitive market and the prices of commodities of which there is a shortage right now but which have a significant supply or demand elasticity, including products currently under the dual price system. Let the market regulate them and let the market mechanism spontaneously regulate their supply and demand. Currently the scope and share of price setting by the government is notably excessive. It should continue to be trimmed to about 20 percent or so of total volume of business. As for the prices of those commodities or labor services which are in short supply at present, have a limited supply elasticity, and have traditionally been under priced, such as electricity and rail freight charges, we should firmly raise their prices in stages to speed up the development of basic industries and infrastructural construction as guided by the market. There are a handful of products involving resources of a monopolistic nature and essential public goods whose prices must continue to be set and regulated by the state. But the government must respect the law of value and set and regulate prices in a way that will fully reflect the supply-demand relations. As China becomes increasingly open to the outside world, we must also hasten to link domestic prices to international prices. After three years of hard work, we believe, a new system will be in place for the prices of goods and labor services. By the

end of the century, the prices of elements of production will be set by the market. The result is a new and comprehensive price system that will ensure the smooth operations of a socialist market economy.

5. Forming and Maintaining a Modified Buyer's Market Is a Key Condition for the Establishment of the New System

The establishment of a new socialist market economy requires us to handle the relations between economic development and reform just right. Most people would like to see the economy grow a little faster and reform proceed a tad more quickly. Since we are in the structural transitional period, we should concentrate our efforts to effect a change in the mechanism as soon as possible to create sound institutional conditions for sustained and highly efficient economic development and enable the economy to enter a benign circle. Accordingly we must strive for fast economic development, using reform as a locomotive. If the public benefits tangibly from reform, it will support and participate in reform even more enthusiastically, giving reform a momentum that cannot be reversed. At the same time, we need to avoid overheating the economy and causing high inflation. The best scenario is a limited buyers' market, which is optimal for expanding the role of the market economy. The practice of reform both at home and abroad shows that once the economy becomes over-heated and inflation starts skyrocketing, not only is reform stunted, but administrative controls might easily be reimposed or tightened, setting back market-oriented reform even further or undoing some of the achievements of the earlier round of reform, for instance, by bringing back the irrational price ratios of yesteryear.

Below are some personal opinions on the formation and maintenance of a limited buyers' market, with supply exceeding demand, which will provide a relatively relaxed environment for the construction and development of a market economy.

The question of whether or not to form and maintain a buyer's market where supply slightly exceeds demand has been debated in economic circles for years. Now that we have affirmed the need to establish a socialist market economy, it seems that the question can be answered more definitely.

Economic principles tell us that we must make use of the market mechanism in order to develop a market economy. The more fully we use the market mechanism, the more it will contribute to the development of a market economy. If we reject the market mechanism, we cannot even begin to talk about the normal and smooth development of a market economy. In China, economic restructuring essentially means curing the ills that arise from excessive state control over all facets of economic activities, which stifles the economy and prevents the full and effective use of resources to the detriment of rapid economic development. It means making full use of the market mechanism to energize the economy and

make the market the primary means of resource allocation to enhance the efficiency of national economic activities and speed up economic development. The formation and maintenance of a buyers' market where supply slightly exceeds demand is a basic condition for the effective operation of the market mechanism as well as a prerequisite for the effective functioning of the market economy.

The market mechanism is the law of the market at work. Through changes in the supply and demand of various commodities on the market (from undersupply to oversupply and back to undersupply) and changes (rises and falls) in their prices on the market, the market mechanism automatically links the production of the commodities with market demand, preventing a permanent oversupply of some commodities on the market, which will depress their prices, and the permanent undersupply of others, which will drive up their prices. Thus the market mechanism is a process and method which automatically regulates production and circulation in society through spontaneous changes in market prices and in supply-demand relations so that the market economy can operate normally.

The market economy is usually characterized by keen competition between commodity producers and operators on the market. Competition does not permit a commodity producer or operator to be lazy in any way. Like the soldiers crossing the river, it can only keep going the best it can, secure a firm foothold through development, and avoid being nudged out of the market or taken over by another company. As they search for growth amid competition and beat their rivals, commodity producers invariably work to increase commodity supply, expand their market share, and maximize their profits. Sometimes they may increase output blindly without considering market capacity or succumb to the seduction of sham market prosperity. This explains why as it grows, a market economy often creates a buyers' market where supply outstrips demand. At the same time, only a buyers' market is best suited to the nature of the development of a market economy and is an important factor for using commodity market relations to stimulate the development of social productive forces. In a buyers' market where supply exceeds demand, competition mainly takes place between sellers, namely commodity producers and operators. The buyers, namely users and consumers, on the other hand, have the upper hand and are even revered as god. To find a seller for their products and hold onto and even expand their market share, producers and operators work hard to upgrade product technology; improve operations and management as well as product quality; increase the variety of product design, color, and style; raise service quality; and respect consumer autonomy, so on and so forth. Furthermore, when there are few administrative restrictions on buying and selling, standardized market-regulated prices are more likely to emerge and price signals are more accurate and better able to reflect the

scarcity of resources. This will certainly spur technological progress and the improvement of the level of productive forces. Of course, there is often a certain hazardlessness to the spontaneous development of the market economy and the very spontaneity of the market mechanism, leading to the waste of social labor and market failure. The capitalist market economy based on private ownership, in particular, will unavoidably create a state of anarchy in production and cyclical economic crises as well as a shocking waste of social labor. This is something we must do our best to avoid as we develop a socialist market economy. At the same time, we also must realize that it is the adoption of advanced technology and equipment modernization on a large scale that pulls the capitalist economy out of recession and fuels a new round of economic prosperity every time.

Consider a different scenario. If, because of institutional factors or due to the guidance of the macroeconomic policy, we have a sellers market where demand outstrips supply instead of a buyers' market where supply outstrips demand, then competition will mainly take place between buyers engaged in panic purchasing. Sellers, that is, commodity producers and operators, in contrast, will have the upper hand and their products will be like princesses who don't have to worry about finding a husband. Under these circumstances, the functioning of the market mechanism will be hampered or stunted. Free from the worry that their goods may not move on the market, producers and operators have no incentive and feel no pressure to improve production technology and management. Nor would they concern themselves with the quality of their products or services or feel the need to better meet consumer demands. On the contrary, a sellers' market will encourage the manufacturing of shoddy products and a decline in the quality of products and services, to the detriment of the consumers' interests. Also, material shortages will encourage the government to intervene administratively by taking anti-market measures like planned allocation, rationing, and price freeze. Clearly all this militates against the development of a market economy, the advancement of technology, the raising of the level of social productive forces, and the construction of a market economy.

In short, the formation of a buyers' market where supply outstrips demand is inevitable in the wake of the development of commodity and monetary relations and the maturation of a market economy. The formation of a buyers' market, in turn, will expedite the development of a market economy. Damaging the buyers' market in any way will work against the full functioning of the market mechanism. This, it may be said, is the law of the development of a market economy.

Some people object to the idea of a socialist market being a buyers' market on the grounds that it may waste social labor and lead to losses. I think this issue must be analyzed closely. First, what we are advocating is a slight oversupply, that is, a limited buyers' market, different from the kind of buyers' market found in capitalist

market economies where production expands indefinitely and consumption by the masses is restricted in many ways. (On the latter kind of buyers' market, supply sometimes far outstrips demand.) Second, on a limited buyers market under socialism, other than the portion set aside as reserves, there is indeed a percentage of goods that don't move on the market because of an oversupply. But this portion normally accounts for a tiny share (under 3 percent). Moreover, we can conclude that in a market economy, goods that do not move are simply candidates for elimination. They may be so obsolete that nobody is interested in them. Or their quality is so poor that they should be discarded. Whatever the reason, they are things that no longer have social use value. Products that are up to standard but are experiencing a temporary glut on the market, on the other hand, will be sold after sitting in the warehouse for awhile. In a socialist market economy, there is always a small portion of obsolete or shoddy products that await elimination. That to my mind is not a bad thing, but a good thing in that it can force commodity producers and operators to work hard to improve product quality and increase variety of style, design, and color to better meet the needs of the market and the consumer. Instead of losses or waste, this must be perceived as the price we must pay for technological progress and a rapid rise in social labor productivity. This price is far smaller than the resources wasted or lost under command planning.

Some people think that a limited buyers' market only comes about as the consequence of structural reform and that it is unrealistic to expect a buyers' market constantly in place at the present stage. As I see it, provided we make it clear that the goal of reform is to establish a new order—a socialist market economy, allocate economic resources as guided by the market, and fully use the market mechanism, it is foreseeable that a buyers' market where supply slightly exceeds demand will slowly but surely emerge as reform deepens and a socialist market economy takes shape. Furthermore, so long as the government's macroeconomic policy is not too interventionist, the buyers' market will largely remain intact, providing a favorable market environment for the development of a socialist market economy. This is something that needs to be further clarified in theory and earnestly implemented in practice, particularly in the design of a macroeconomic policy. As a result of continuing market-oriented reform and the growing use of the market mechanism, a buyers' market has begun to appear in some places in China since the late 1980s and lasted for several years, something that had never happened before in other socialist nations. This resulted in part from economic belt-tightening and the drive to improve the economic environment and rectify the economic order. But it was also the inevitable outcome of the development of a socialist market economy. In discharging its macroeconomic responsibilities in the future, the government should not consider this kind of limited buyers' market a candidate for regulation and control. On the contrary, it should make it one of the goals of macroeconomic regulation and control to maintain and improve

upon a limited buyers' market. Such a course of action will be very helpful to the development of a socialist market economy.

Capital Iron, Steel: Model for State Enterprises

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[Article by Wang Zhuo (3769 3820): "The Capital Steel Way Is the Way To Make the State-Owned Economy Boom"]

[Text] "Capital Steel's experiences are so good!" was the comment of Comrade Deng Xiaoping during his 22 May special trip to inspect the Capital Iron and Steel Complex. What is good about Capital Iron and Steel's experiences? Comrade Xiaoping said that Capital Iron and Steel's orientation is correct and the road it is following is good. A correct direction and a good road capsulizes Capital Iron and Steel's experiences. Capital Iron and Steel's way of contracting makes the state-owned economy boom! During reform and opening to the outside world, we must regard the booming of the state-owned economy as a major political task.

What does Comrade Deng Xiaoping's high evaluation and complete summation of Capital Steel's contracting experiences mean. As I see it, Deng Xiaoping's important remarks mean that the enterprise contracting system is a matter of vital and lasting importance; it is not an expedient measure.

1. The Predicament of State-Owned Enterprises

During the three years of improving the economic environment and rectifying the economic order, state-owned enterprises within budget experienced a slide in returns. Comparison of 1991 with 1988 showed a 67.8 percent decline in enterprise profits, a 43.1 percent decline in enterprise retained profits, and a rise in the number of failing enterprises from 12 percent to 29.7 percent in a 147.5 percent increase. The actual situation was even worse in that one-third of enterprises were verging on failure. When the number of actually failing enterprise was added to the number of potential failing enterprises, two-thirds were failing. State-owned enterprises were facing a grim situation.

State-owned enterprises failure to improve returns meant that state-owned enterprises were unable to beat the three kinds of partially or wholly foreign-owned enterprises, were unable to beat township and town enterprises, and were also unable to win out over privately-owned enterprises in market competition. State-owned enterprises are shriveling today. They are sapping the vitality of the national economy, and they are weakening the capacity of socialist production relationships' to reproduce and expand reproduction. This has become a political problem that threatens the keystone of the socialist system.

The "northeast phenomenon" that people talk about is actually the shriveling of large state-owned enterprises. Northeast China has a number of large enterprises whose plant, equipment, and products are old. Virtually all the taxes and profits that these enterprises have created during the past 30 years have been taken away with the result that these enterprises are powerless to make additional investment, are powerless to update their technology, and are powerless to develop new products. Perfectly good state-owned enterprises have been forced into a state of atrophy.

In economically developed coastal areas, the three kinds of partially or wholly foreign-owned enterprises are lively, township and town enterprises are spirited, and the privately-owned economy is itching to go. This is a good situation, but by comparison, state-owned enterprises have little money in their coffers, and carry excessive burdens. As a result new enterprises that local governments operate do not want to enter the state-owned "cage." They do not want to run state-owned enterprises covered by budget. The percentage of this kind of local state-owned enterprises is steadily declining.

An article by a renowned commentator that Hong Kong TA KUNG PAO published on 17 June 1992 said as follows: "The privately owned economy will see another 'take-off' during the next decade or more, but the state-owned economic component will continue to shrivel." Facts show that state-owned enterprises are unable to compete with either the three kinds of partially or wholly foreign-owned enterprises or township and town enterprises. This is particularly true of the more than one-third of state-owned enterprises that have a reservoir of red ink. Even more state-owned enterprises face various problems. They are destined to be eliminated through market economic competition. Economic officials in Beijing predict that unless government economic policy changes, by the year 2000 the output value of state-owned enterprises will amount to approximately 27.2 percent of gross national output value. This means that China's economy will become one in which the nonstate-owned economy is the primary component, the keystone of the socialist system being seriously weakened.

We believe that the predicament of the state-owned enterprise has not been created by state ownership but by policies and systems. We have no choice other than to persevere in reform and opening to the outside world. Study of the experiences of Capital Steel is the way that must be taken to make state-owned enterprises radiate youthful vigor!

2. The Beauty of the Contract System

Guided by the correct line of the Third Plenary Session of the 11th Party Central Committee, in 1979 Capital Iron and Steel's CPC Committee began gradually to contract in a rather distinctive way. After 13 years of feeling its way, experimenting, and perfecting the

system, it has now scored initial successes that demonstrate the beauty of the contract system and stimulate the exuberant vitality of the socialist state-owned economy.

Capital Iron and Steel's way of contracting way is the way to emancipate enterprise productivity. In 1991, Capital Iron and Steel's produced 4.31 million tons of processed steel, which was 3.66 times the 1978 amount for an annual average 10.5 percent increase. This was 7.2 percentage points higher than the average rate of increase in processed steel output by other major iron and steel enterprises in the country during the same period. Steel output will reach 10 million tons in 1994, and by the end of the present century, it will reach 20 million tons!

Capital Iron and Steel's way of contracting is the way that increases enterprise economic returns. In 1991, Capital Iron and Steel's profits and taxes totaled 2.926 billion yuan, 7.76 times the 1978 figure for an average 17.07 percent increase. This is approximately 10 percentage points higher than the average annual rate of increase in taxes and profits by other major iron and steel enterprises in the country during the same period.

Capital Iron and Steel's way of contracting is the way that increases enterprises contributions to the state. In 1991, Capital Iron and Steel paid the state 1.815 billion yuan, 4.9 times the 1978 amount for an average annual 13 percent increase. This was approximately 8 percentage points higher than the amount paid by the other major enterprises in the country. During the 12 year period from 1979 to 1991, the state recouped the value of nearly seven Capital Iron and Steel complexes.

Capital Iron and Steel's way of contracting is the way to realize high appreciation of state-owned assets. It is a way that socialist production relationships can take to expand reproduction. During the period 1979-1991, Capital Iron and Steel invested 4.81 billion yuan in fixed assets, only 430 million yuan of which was state investment, increasing the value of state-owned fixed assets by 4.2 billion yuan. This was 2.49 times the original value of Capital Iron and Steel's state-owned assets in 1978.

The way that Capital Iron and Steel contracted is the way to increase steadily the income of staff members and workers. In 1991, the income of Capital Iron and Steel's staff members and workers averaged 324 yuan per month, 5.26 times the 1978 figure for an average annual 13.6 percent increase.

During his inspection of Capital Iron and Steel in May 1992, Comrade Deng Xiaoping said that whether an enterprise moves ahead swiftly or slowly, well or poorly depends on two conditions: One is whether its orientation is right, and the other is whether it is taking a good road. Both conditions are right at Capital Iron and Steel. Comrade Deng Xiaoping completely endorsed the orientation of Capital Iron and Steel's way of contracting.

3. The Soul of the Contract System

Two diametrically opposed ways of thinking exist about reform in socialist countries. One line of thinking holds that the publicly owned economy, especially the state-owned economy, lacks vitality, and that it is only the privately owned economy that has vitality. The conclusion is that the state-owned economy cannot emancipate productivity. Some people have lost confidence in the state ownership system; they advocate taking the private ownership road. The other line of thinking holds that the lack of vitality in the state-owned economy stems not from the state ownership system per se but from the product economy mode of distribution. In the give-and-take relationship between the state and enterprises in a traditional product economy, the mode of distribution is unified state control over receipts and expenditures. Prior to reform in 1978, the state treasury kept 98.7 percent of Capital Steel and Iron's total taxes and profits, leaving only 1.3 percent for Capital Iron and Steel, the total amounting to less than 5 million yuan. For a large enterprise having tens of thousands of staff members and workers, this was too small a sum that permitted nothing to be done. Such a mode of distribution stifles the inherent vim and vigor of a state-owned enterprise.

Since 1981, Capital Iron and Steel has adhered to a direction of reform in which public ownership is paramount, demolishing the product economy mode of distribution, and promoting a commodity economy mode of distribution, the state practicing a distribution system of "giving first before taking" with regard to state-owned enterprises. This "giving first" does not mean making an allocation to enterprises from existing state revenues, but the construction of a mechanism whereby enterprises can rapidly increase their total profits and taxes, leaving to enterprises the amount of current year profits above and beyond the contracted amount. Should an enterprise's current year profits exceed the contracted amount very greatly, the enterprise gets the lion's share of the excess. Increase in the taxes and profits that enterprises pay requires a process; thus, increasing state-owned enterprise retained profits as a percentage of total taxes and profits also requires a gradual process. In 1981 Capital Iron and Steel's percentage of total taxes and profits began to increase to 10.7 percent, rising to 17.8 percent in 1982, 19.9 percent in 1993, 26 percent in 1984, 29.8 percent in 1985, and 33.9 percent in 1986. From 1987 through 1991, Capital Iron and Steel's profit retention as a percentage of total profits and taxes fluctuated at around 40 percent. Practice at Capital Iron and Steel shows a 6 to 4 ratio in the split of total taxes and profits between the national treasury and the state-owned enterprise. This means that only after overall planning that takes into account the interests of the state, the enterprise, and staff members and workers are state-owned enterprises able to accumulate for themselves, and only then do they become the principal investment entity having the economic strength to proceed with technological progress and expand the scale of their production. It is also only then that they have the economic strength to be responsible for their own profits

and losses, using surpluses at one time to make up for losses at another, and only then can they become commodity producers and dealers making their own business decisions, being responsible for their own profits and losses, developing themselves, and limiting themselves. Recently an old comrade said tellingly that simply giving decision making authority to state-owned enterprises without giving them money over which they have authority makes a mockery of their decision making authority. Capital Iron and Steel's contract system is characterized by "strictly guaranteeing a percentage at the outset and removing restraints on the enterprise in the end." This is the soul of the Capital Iron and Steel contracting system.

The state's "strictly guaranteeing a percentage" to state-owned enterprises means it sets a fixed tax burden for enterprises. It may not increase taxes on transactions to put the squeeze on the enterprise's profits. Second, it means strictly guaranteeing enterprise payment of profits or steady increases in payments of profits to the state. Removing restraints on the enterprise means that the enterprise retains all profits in excess of the amount to be paid. This encourages the enterprise to make more so it can keep more. It permits the enterprise to get the lion's share of new increases in profits that exceed the guaranteed payment to the state in any given year. The state's profit increase contracting method whereby Capital Iron and Steel "strictly guarantees a base figure, keeping everything in excess of the guaranteed amount" was approved by the State Council. However, in the process of implementation, two major hindrances occurred.

The first major hindrance occurred in January 1983. The national ministries concerned and the Beijing municipal bureaus concerned learned in 1982 that after paying the state 286.2 million yuan of its contracted 410 million yuan in profits, Capital Iron and Steel kept a net 9,400 yuan more in retained profits than during the previous year. In mid-February, the organizations concerned stated that Capital Iron and Steel was not entitled to take the lion's share of the increased profits in that year. Capital Iron and Steel disagreed rejecting the old idea of "only wanting to take eggs, but not wanting to raise chickens." Capital Iron and Steel wrote a report to the CPC Central Committee and State Council leaders noting that Capital Iron and Steel's 1981 contracted base figure of 270 million yuan was still 42.5 percent higher than its total profits prior to reform in 1978 (the all-time high); that using an advanced and sensible contracting base figure, it had increased profit payments by 6 percent in 1982; that the state's fiscal revenues had markedly increased over the previous year, thus the enterprise and its staff members and workers should be permitted to retain more when they earned more; and if enterprises are limited always to taking just a small share of the enterprise's increased profits for a given year, this actually amounts to the old profit retention methods of the previous several years, which has little to recommend it. The Central Committee's leading comrades intervened, agreeing with the views of Capital Iron and Steel.

The second hindrance occurred on 6 December 1986 when Capital Iron and Steel suddenly received a notice from the Beijing municipal bureaus concerned. The notice said that beginning in 1984 when the state increased the tax rate on steel billets from 8 to 14 percent, Capital Iron and Steel's practice of offsetting the increased tax payments against profit payments was wrong. Thus, Capital Iron and Steel was 108.9 million yuan in arrears on payments of profits for the previous two years, and this sum was due and payable in full within one week. On 9 December 1986, Capital Iron and Steel sent an urgent notice of appeal to the State Council. On 25 March 1987, 25 million yuan was forcibly deducted from Capital Iron and Steel's account. Capital Iron and Steel had no choice but to disturb the master architect of China's great reform cause, Comrade Deng Xiaoping. On 9 June, Capital Iron and Steel sent its urgent report to Comrade Deng Xiaoping. Comrade Deng Xiaoping issued instructions that no change was to be made in Capital Iron and Steel's contracting methods. On 28 August, the State Council Office issued documents on this matter to the Beijing Municipal Government and Capital Iron and Steel.

Capital Iron and Steel's practice in contracting system reform fully demonstrated that the distribution system of "strictly guaranteeing a percentage and removing restrictions on enterprises" that Comrade Deng Xiaoping had set was entirely correct. This distribution system can shape a mechanism that stimulates enterprises to seek a maximization of profits. Therefore, such a distribution system can both increase enterprise vitality, and ensure steady increase in fiscal revenues. However, such a distribution system will produce a trend toward decline in fiscal revenues as a percentage of total enterprise taxes and profits. It is just such a percentage decline trend that produces the trend toward steady increase in fiscal revenues. Without the cause of the former, there can be no effect of the latter. Between 1981 and 1982, state fiscal revenues as a percentage of Capital Iron and Steel's total taxes and profits fell from 90 percent to 82 percent, and in 1982 state fiscal revenues increased 50 million yuan over 1981. Between 1983 and 1984, state fiscal revenues as a percentage of Capital Iron and Steel's total taxes and profits fell from 70 percent to 58 percent, but during this same period, state fiscal revenues increased each year by approximately 100 million yuan over the previous year. Between 1989 and 1990, state fiscal revenues as a percentage of Capital Iron and Steel's total profits and taxes fell further to 57 percent, but during that same period state fiscal revenues increased by approximately 200 million yuan each year over the previous year. These data demonstrate the existence of a law of distribution of "give first in order to take" between the state treasury and state-owned enterprises in the distribution of total enterprise profits and taxes. The "give" means maintaining the tax burden steady while all profits in excess of the contracted amount for any given year are retained by the enterprise, those enterprises making good returns being able to retain the lion's share, and being able to increase the

enterprise's retained profits as a percentage of total profits and taxes. "Taking" means a tremendous increase in the absolute amount of state fiscal revenues. It was Capital Iron and Steel's contracting mechanism that produced this fine distribution pattern of giving first in order to take. Without "giving first," taking more is impossible, and only taking but not giving may drive both state-owned enterprises and the state treasury into a ditch.

Did Capital Iron and Steel pay too little in taxes and profits to the state? The above data has provided the answer.

4. The Contract System Mechanism

Capital Iron and Steel's success in reform was founded on its adherence to contracting, which changed the emphasis away from being a product producer under the old system to being a commodity producer and operator under the new system. Specifically, it was a matter of the enterprise using the contracting of state responsibility norms as a means of obtaining the authority that the enterprise should have as a commodity producer and operator, thereby producing once and for all a state-owned enterprise operating mechanism suited to the character of a commodity economy, which is to say a mechanism for the maximization of profits.

The contract system first fashioned an enterprise pressure mechanism. This pressure mechanism derived from responsibility norms that "set a firm percentage at the outset," i.e., the enterprise had to contract payment to the state of profits, this payment increasing by 7.2 percent each year. This was a firm quota that the enterprise had to meet. If it did not meet it, the money had to be made up out of the wages of staff members and workers. This was a pressure that affected the personal welfare of every person. Furthermore, if the enterprise failed to meet this quota, it would have no retained profits and no fund for the development of production, thereby losing its reserve strength for development. This was a grim pressure affecting the enterprise's future. The other side of "setting a firm percentage at the beginning," was "removal of restraints at the end," meaning that once the enterprise fulfilled its profit payments to the state, all of the remainder reverted to the enterprise itself. This produced a mechanism that motivated the enterprise to maximize its profits. Calculations show that for Capital Iron and Steel to meet its 7.2 percent annual increase in payment of profits to the state and still be able to retain profits for the development of production, it had to meet the firm goal of increasing profits 20 percent each year. All staff members and workers at Capital Iron and Steel labored ceaselessly day and night in a lively demonstration of the functioning of this motivation mechanism.

The contract system produced an enterprise benefit stimulus mechanism. This benefit stimulus mechanism centered around the distribution of returns. Two specific methods were used: One was the linking of the total wage

bill to profits realized at a 0.8 to 1 ratio. If the enterprise increased its profits by 20 percent each year, the total wage bill for the year would increase 16 percent. The second method was to break down level by level the 20 percent increase in profits, contracting fulfillment to individuals, only those who fulfilled the contract norms being awarded a wage increase and sharing in bonuses. This benefit stimulus mechanism had a powerful effect in stimulating the zeal of all staff members and workers. It formed the basic motive force for the contract system enterprise's mechanism for maximizing profits.

The contract system gave rise to an enterprise self-accumulation mechanism. Calculations showed that for Capital Iron and Steel to be able to meet its firm profit payment quota of an additional 7.2 percent each year; it would have to increase profits an additional 20 percent each year, and 60 percent of its retained profits would have to serve as a fund for the development of production to be used for technological transformation and for investment in fixed assets to expand the scale of production. For the enterprise, this was self-accumulation for the powering of its immediate and long-range interests. The enterprise did not want to, nor could it, distribute or consume all its profits because such short-term behavior would inevitably punish it severely. For this reason, the staff members and workers at Capital Iron and Steel voluntarily changed the 4:3:3 ratio for the distribution of retained profits among the production development fund, the collective welfare fund, and the bonus fund that higher authorities had set at the beginning of contracting to a 6:2:2 ratio. This showed that the contract system had fashioned a mechanism for the correct handling of the ratio between accumulations and consumption, thereby ensuring the enterprise's ability to accumulate funds itself.

Comrade Deng Xiaoping said that the problem of how to enliven large and medium size state-owned enterprises must be solved, but when enterprises are bound hand and foot, how can they be enlivened. Everyone says reform, but reform how? Capital Iron and Steel used the contract system to bring about a situation in which enterprises have the rights and benefits they should have as commodity producers and operations. This provides an avenue for reform of large state-owned enterprises.

5. The Power of the Contract System

Capital Iron and Steel's success in reform was also attributable to people; it depended on the power of "staff members and workers as the foundation." It relied wholeheartedly on the working class to operate a socialist enterprise. The fundamental distinction between private ownership and public ownership is the different position of staff members and workers in an enterprise. In the former, staff members and workers are hired workers; in the latter, staff members and workers are the masters of the enterprise. Economically, the staff members and workers at Capital Iron and Steel participate in the distribution of profits and contract responsibility quotas; politically, they enjoy democratic rights; and in their

daily lives they enjoy autonomy. In the exercise of these rights, the staff members and workers can rely on support from the system.

Economically, the staff members and workers have become the masters of the enterprise. Capital Iron and Steel's staff members and workers participate in the distribution of enterprise profits; at the same time they contract state economic responsibilities. The rights and obligations of staff members as masters in their own house is realized through the all-personnel contract system.

The all-personnel contract system defines the duties of all staff members and workers. It does this by breaking down the responsibility norms that the enterprise has contracted with the state into various kinds of economic and technical norms, which together with technical and vocational work tasks and attendant cooperation relationships are broken down level by level for contracting by plants, mines, offices, workshops, factory teams and groups, and individuals in the building of 23,126 different position responsibility systems. The all-personnel contract system also defines staff member and worker rights to take part in enterprise profit distributions. This is done by the enterprise paying a portion of its profits to the state and retaining a portion for the enterprise. Wages and bonuses, which are paid out of retained profits, are distributed to individuals through fluctuating grade raises, wages linked to profits, and monthly bonuses. These are the specific ways in which staff members and workers take part in enterprise profit distribution.

Capital Iron and Steel's contract system also provides that only after fulfilling profit norms for the whole corporation can the enterprise retain profits, and only then can the staff members and workers enjoy increased wages, bonuses, and welfare services. This bond of mutual interest forms the staff members and workers at Capital Iron and Steel into a mighty industrial army in which myriad people are united in struggle with one mind to become a dependable support for completing national tasks and realizing the enterprise's goals.

Politically, the staff members and workers have become the masters of the enterprise. Capital Iron and Steel's staff members and workers have become masters of the enterprise mostly as a result of the establishment within the enterprise of a democratic system in the form of a staff member and worker representative assembly, and the practice of a general manager responsibility system under leadership of the staff member and worker representative assembly. The staff member and worker representative assembly is the supreme authority at Capital Iron and Steel. The staff member and worker representative assembly elects a factory committee that serves as a permanent organ for exercising the functions of the staff member and worker representative assembly when it is not in session. The factory committee's director and deputy director and general manager are directly elected by the staff members and workers, their appointment

reported to higher authority. In the implementation of a democratic supervision system, the staff member and worker assembly elects a supervisory committee. Supervisory and inspection leadership personnel at all levels and personnel in specific fields, as well as staff members and workers in all departments enforce the decisions of the staff member and worker representative assembly and the factory committee, and they accept and hear appeals from staff members and workers.

That Capital Iron and Steel's staff members and workers have become masters of the enterprise is also exhibited in the autonomous system for staff member and worker welfare. The staff member and worker representative assembly elects a welfare committee to be responsible for deciding the allocation and use of the collective welfare fund.

Capital Iron and Steel's ties of economic interest and political democracy closely unite the enterprise's industrial army for a concerted effort. A political environment that is both democratic and disciplined has been shaped within the enterprise in which the CPC committee has prestige and the enterprise leadership team has power. These are the fountainheads of power for Capital Iron and Steel's fulfillment of all tasks.

6. Orientation of the Contract System

The enterprise contract system is in keeping with China's circumstances, is in keeping with the duality in the allocation of socialist resources, is in keeping with requirements of the party's basic line, is in keeping with the general orientation of socialism, and is a product of China's distinctive brand of socialism. Just as the stock share system in pilot projects cannot take the place of the contract system, Capital Iron and Steel has accumulated practical experience in making the contract system and the stock share system compatible; nor can the "separation of taxes and profits, and after-tax contracting" negate the enterprise contracting system. A number of state-owned enterprises in which Capital Iron and Steel's contracting system is representative are filled with vim and vigor, and exhibit great exuberance. This shows that the enterprise contracting system has powerful vitality.

However, a question is whether state-owned enterprises that employ a contracting system can adhere to a socialist orientation in the allocation of resources. This is a matter of the orientation of the enterprise contracting system. Answering this question requires study of the duality of enterprise allocation as well as study of the resources allocation system that the enterprise contracting system fashions.

When theoreticians discuss resources allocation nowadays, they recognize only the allocation of key production elements; they do not discuss production relationship allocation. This stems from the western thesis that negates the duality of resources allocation. The fact is that no matter the social system, resources allocation is dualistic. The first part of the duality is the allocation of

production elements, i.e., allocation of material relationships; the second part of the duality is allocation of production relationships, i.e., the allocation of personal relationships. The duality of resources allocation is two aspects of a single matter. This is common knowledge in Marxist economics, but some people who are misled by western economics even forget the scientific common knowledge that the old ancestors of socialism have bequeathed.

The resources allocation mechanism in state-owned enterprises is of two kinds: One kind is the product economy resources allocation mechanism. Its basic feature is use of an undiversified resources allocation mechanism, both the allocation of key production elements and the allocation of production relationships being regulated by the government to the complete exclusion of the spontaneous regulation of the market mechanism. Such a resources allocation mechanism helps allocation production relationships, but it cannot rationally allocate key production elements within an enterprise. The other kind is the commodity economy resources allocation mechanism. One of the main goals of China's system reform is to transform the product economy resources allocation mechanism into a commodity economy resources allocation mechanism. One way to effect this transformation is institution of the enterprise contracting system to change enterprises from product producers into commodity producers, using this as the basis for transforming the resources allocation mechanism.

In the allocation of production elements, when spontaneous regulation of the market mechanism is to be used, enterprises plan the allocation of resources for key production elements on the basis of market demand. Of course, they have to decide whether this demand is only apparent demand. They look deeper at what mechanism is regulating changes in market demand. Whether market demand is in overall balance or imbalance depends on conscious government macroeconomic regulation, i.e., balanced market demand is regulated by the overall balance of government finance, credit, and foreign exchange receipts and disbursements. Structural changes in market demand are determined largely by changes in the government-controlled national income distribution structure, as well as by changes in the make-up of enterprise consumption for constructive purposes and changes in the make-up of urban residents' consumption.

In the allocation of production relationships, when enterprises practice a contracting system, state-owned enterprises become entities in the allocation of production relationships. They become entities in the reproduction and expansion of reproduction of socialist production relationships. This allocation of production relationships is realized through the allocation of benefits. Specifically, this allocation has several levels.

In the first level, the allocation of benefits between the state and state-owned enterprises is exercised through

conscious macroeconomic regulation in accordance with the required distribution laws inherent in the socialist publicly owned economy. The basic principle in the allocation of benefits are: First is ensuring the basic needs of state-owned enterprises to realize the reproduction and expansion of reproduction of socialist production relationships to spur development of state-owned enterprises' productivity, allowing enterprises to make the tax and profits "cake" bigger in this way for the steady satisfaction of the state treasury's constantly increasing needs. The state treasury must pursue a distribution policy toward state-owned enterprises of "releasing water to raise fish, giving first in order to take."

In the second level, the allocation of benefits among state-owned enterprises practicing the contract system as well as among nonstate-owned enterprises is spontaneously regulated by the market mechanism, the market competition mechanism regulating the allocation of benefits among enterprises. All enterprises that enter market competition accept the challenge of the equal competition mechanism and the survival of the fittest mechanism. Government can only employ tax rates, interest rates, and foreign exchange rates to regulate indirectly.

In the third level is the distribution mechanism for internal accumulation and consumption by state-owned enterprises practicing the contract system, i.e., the mechanism for realizing the expansion of reproduction by socialist production relationships, which is the internal self-limiting mechanism in contract system enterprises. This self-balancing mechanism is created by pressure mechanisms at both ends. At one end is ensuring payment of profits to the state; at the other end is ensuring increase in staff member and worker income. Both depend on the contract system enterprises meeting certain profit goals. They must ensure fulfillment of certain profit goals. Contract system enterprise cannot distribute and consume all their profits; they can only accumulate properly. The steady increase in enterprise accumulations is the steady expansion of reproduction by socialist production relationships.

I believe that the commodity economy resources allocation mechanism that the state-owned enterprise contracting system has spawned can both rationally allocate the key elements of production and also rationally allocate production relationships to ensure the expansion of reproduction by socialist production relationships. Clearly, the orientation of the state-owned enterprise contracting system is a socialist orientation. The state-owned enterprise contracting system embodies the requirements of the party's basic line.

7. Development of the Contracting System

The 13 years of reform from the rural contracting system to the urban contracting system was the first stage of development of the contract system. The period from the development of enterprise profit contracting and business contracting to the total contracting of inputs and

outputs in the dual contracting of assets and operations was the second stage of development of the contracting system. The period from the development of enterprise contracting at the microeconomic level to government contracting at the macroeconomic level was the third stage in the development of the contracting system.

Here several problems in the second stage of development of the contract system will be discussed:

(1) Medium and small state-owned enterprises lend themselves to the use of a distribution policy of "taxes to support the treasury and profits to enliven enterprises." Luohe City in Henan Province, and Jining City in Shandong Province practiced this kind of distribution policy. In Jining City, product taxes accounted for 90 percent of revenues, income taxes amounting to 10 percent. The so-called "profits to enliven enterprises" is actually "profits to support the treasury." This is because only by adhering to a distribution policy of enlivening enterprises that makes the maintenance of steady growth of industrial production possible can steady growth of fiscal revenues be ensured. Such a distribution policy is like releasing water to raise fat fish. It is a distribution policy that produces fish to eat for everybody. Before instituting contracting, not a single enterprise in Jining City made more than 40,000 yuan in profits and taxes. As of the end of 1990, however, the number of enterprises making more than 40,000 yuan in profits and taxes totaled 14. Before contracting, the city treasury's revenues amounted to 258 million yuan. In 1991, after contracting, the city treasury's revenues totaled 724 million yuan for an average annual 25.4 percent growth, the net increase in fiscal revenues amount to 100 million yuan annually.

(2) Large state-owned enterprises should practice the distribution policy of "releasing water to raise fish," giving first in order to take. The key here lies in "contracting a fixed percentage to be paid to the state, thereby stabilizing the tax burden, the enterprise retaining everything in excess of the contracted amount, and the enterprise assuming responsibility for any arrears," the enterprise's retained profits as a percentage of total taxes and profits rising steadily. During the Seventh Five-Year Plan, Capital Iron and Steel made taxes and profits totaling 9.7 billion yuan, paying 5.8 billion yuan or approximately 60 percent of total profits and taxes to the treasury. Capital Iron and Steel's retained profits totaled 3.9 billion yuan, approximately 40 percent of the enterprise's total profits and taxes. Only in this way was the enterprise able to become the major investor in itself, have the strength to bear responsibility for its own profits and losses, and have the economic resources to operate a corporation that spans the country. In the distribution of profits, the concept that it is necessary for "the treasury to take the lion's share of profits in any given year," changed to the concept that "the enterprise is to take the lion's share of profits in excess of the contracted amount in any given year."

(3) Large state-owned enterprises should institute complete input-output contracting by which is meant full contracting of assets and operations. For enterprises that institute full input-output contracting, it is for the enterprise assets that the state lets a contract, and it is also for the enterprise assets that the state-owned enterprise accepts a contract. The state is the ultimate owner of equity. State-owned enterprises become representatives of the state's ownership rights through contracting; thus, derivative enterprises are the bearers of operating rights. Within enterprises, a division of responsibility and a division of labor is made between the representatives of ownership rights and operating rights. Capital Iron and Steel's factory committee is the representative of the state's ownership rights, and the general manager holds operating authority. The formerly stated "separation of the two authorities" [ownership authority and operating authority] was ambiguous. Separation of the two authorities makes major achievements difficult. Owners cannot be divorced from operators, and operators cannot be divorced from owners. A state-owned enterprise is made up of the representatives of ownership rights and operating rights, the organization for linking together the separation of responsibilities and the division of labor being in the enterprise rather than having a representative of the state's ownership rights from outside the enterprise being stationed in the enterprise. Capital Iron and Steel voluntarily increased the percentage of accumulations from retained profits, using them to increase investment, which added to state-owned assets. This was the way that Capital Iron and Steel acted as representative of ownership rights and representative of the state's interests, and these state interests included the enterprise's interests and the interests of the staff members and workers. For enterprises to fulfill the profit plan, they must increase investment; staff member and worker wage, bonus, and welfare increases also depend on increased investment, the interests of the state, the enterprise, and the staff members and workers all being tied together. Therefore, Capital Iron and Steel rejected the recommendation that assets created as a result of the investment of retained profits should be owned by the enterprise.

(4) Large state-owned enterprise exercise of the contracting system requires adherence to a treasury contracting system and all that goes with it. Local government institution of a distribution policy toward state-owned enterprises that "releases water to raise fish, giving first in order to get" requires that the local governments institute a corresponding treasury contracting system with government at a higher level, including the contracting of increased payments to that government's treasury. Without an associated government contracting system, a state-owned enterprise contracting system that "releases water to raise fish" cannot be implemented. Comrade Deng Xiaoping has endorsed Capital Iron and Steel's contracting system; therefore, a fiscal system that divides taxes cannot be instituted. Similarly, the separation of taxes and profits, and after-tax contracting conflict with Capital Iron and Steel's

contracting system. Since Comrade Xiaoping has endorsed Capital Iron and Steel's contracting system, the separation of profits and taxes, and after-tax contracting can no longer be promoted.

(5) Isn't the enterprise contracting system bound to produce short-term behavior on the part of enterprises? Capital Iron and Steel's contracting system has not produced short-term behavior. Actually, short-term behavior stems from short-term contracting, and it is also an outgrowth of frequent policy changes. There are two efficacious ways of curing short-term behavior: One is a long contracting period, something on the order of five to 10 years for most enterprises and between 10 and 15 years for exceptionally large enterprises. The other is stable contracting policies, including no frequent changes in tax burdens. I believe that enterprise short-term behavior is not an inevitable consequence of the contracting system.

8. The Key is "Changing Ideas"

Peaceful competition between the modern socialist system and the capitalist system will inevitably be expressed in a market contest of strength between state-owned enterprises and privately-owned enterprises. This will be a contest of strength that ultimately determines the future fate of the two social systems. During the 13 years of reform and opening to the outside world, the three kinds of partially or wholly foreign-owned enterprises and privately owned enterprises have expanded, and township and town enterprises have developed by even greater leaps and bounds. Overall, this is a fine situation; nevertheless, a substantial number of state-owned enterprises are shriveling without attracting profound concern. If state-owned enterprises are unable to compete with the three kinds of partially or wholly foreign-owned enterprises and privately-owned enterprises, it will not be possible to say that China's reforms have been completely successful. A cause for rejoicing and encouragement is that a number of state-owned enterprises such as Capital Iron and Steel are radiating the youthful vigor of the national economy after reform and opening to the outside world, thereby stimulating vigor and vitality in the state-owned economy. The documents from the State Council that expanded Capital Iron and Steel's authority particularly emphasized that "after 13 years of exploration, Capital Iron and Steel has taken a successful road of reform, opening to the outside world, and development for large state-owned enterprises. It has rapidly developed from a medium-size enterprise into a large, technologically advanced, scientifically managed, and strong enterprise making good returns and a large contribution." Capital Iron and Steel is first among enterprises of the same kind in the world in seven economic and technical indicators. Measured in terms of comparable specifications, Capital Iron and Steel's net output value and labor productivity rate are first rate. In 1991, Capital Iron and Steel exported to Indonesia a complete steel bar tolling mill, and it exported the software technology for the process control design of seven large converters to America's largest iron and steel

enterprise, United States Steel, both of which received high praise. This shows that the socialist state-ownership system can feel proud and elated in its association and cooperation with modern capitalist privately-owned enterprises, and it also shows that Capital Iron and Steel's reform has pioneered a road for the prosperity of the state-owned economy. The future of the socialist state-owned economy is certain to be as bright as the myriad rays of the sun!

During his inspection of Capital Iron and Steel, Comrade Xiaoping said that Capital Iron and Steel's experiences are so good! The road is already there. I believe that it making the national economy boom, the road lies wherever there are good experiences. It is a matter of whether you study it and take it. The key to whether Capital Iron and Steel's experiences are studied and whether Capital Iron and Steel's road is taken lies in deciding to "change ideas."

Ma Hong on Integrating Planning, Markets

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[Article by Ma Hong (7456 3163), edited by Liu Qichang (0491 0366 2490): "Develop the Socialist Market Economy, Perfect the New Structure Integrating Planning and Markets"]

[Text] The relationship between planning and markets is at the heart of economic structural reform. Over the past 14 years, economic reform in our country has centered all along around reforming a highly centralized system of mandatory planning and the expansion of the regulatory role of market mechanisms. Comrade Deng Xiaoping pointed out as early as 1979 that we could also develop a market economy under socialism. This year, he again raised the question of developing the socialist market economy during his tour of South China. With this major breakthrough in the theory of socialist reform, the cause of reform and opening in China entered a new period of development.

Developing the socialist economy is a fundamental part of the task of developing socialism with Chinese characteristics. The new system of socialist market economy is different from the highly centralized system of the planned economy practiced in the former Soviet Union, or the system of a market economy based on private ownership practiced in the West. It is a new economic system based on China's national conditions and productivity level, a system which integrates effective market mechanisms with effective macro-control. We have gained some very valuable experience in this connection, but careful summing up is still needed. We must also see that developing the market economy under socialism is an undertaking unprecedented in history. We must, on the basis of the principles of Marxism, conscientiously sum up the experience of reform over the

past 10 years and more and explore concrete ways of integrating planning and markets under the socialist market economy.

I

Planning and markets have been issues of universal concern since Marx first put forward the important concept of the planned organization of production and economic activities in society as a whole. The success of socialism in Russia in 1917 truly made these issues the order of the day, making them all the more pronounced and important. In the early 1920's, Lenin, proceeding from actual conditions in the Soviet Union, put forward his famous New Economic Policy. He abandoned the practice of "direct transition," which was the communist trend at that time, and "turned to the market" form of the economy, resorting to flexible means to put plans in practice. Due to limitations in some people's theoretical understanding, an ideology which rejected market mechanisms and the commodity economy and advocated running the national economy as a big factory gained predominance after Lenin's death, and a highly centralized planned economy developed under the guidance of this ideology. After World War II, many emerging socialist countries mechanically copied this planned economic system, which rejected the market. To be objective, this highly centralized planned economy did play a positive role in helping these newly emerging socialist countries quickly amass and mobilize their resources, carry out large-scale construction in key areas under the encirclement of imperialism and other hostile forces, and lay a solid material foundation for future economic, scientific and technological development. It is not in keeping with Marxist historical materialism to overlook this fact. However, we must also see that this planned economic system has the serious drawback of having low efficiency in resource allocation. This drawback was particularly pronounced during those early years after the basic completion of industrialization. On the micro-economic level, because enterprises lacked autonomy and had little motive for innovation, and because the notion of market competition had been rejected, enterprises did not feel pressurized to improve performance. On the macroeconomic level, efficiency in the deployment of resources between departments and regions was low because the product mix and industrial structure generated by the planned deployment of resources fell seriously out of step with the demand structure of the market. Unrealistic and hasty plans which were divorced from our national strength and conditions resulted in the disproportionate development of the national economy. This shows that a planned economy which rejected market mechanisms hindered the development of the productive forces. Thus, after the 1950's, the former Soviet Union and some East European countries began reforming their economic systems. In the subsequent waves of reform, they achieved varying degrees of progress in enlarging the authority of enterprises and encouraging them to compete in the market. However, on the whole they had yet to find the correct way and an

effective form of integrating planning and markets in a socialist economy. These countries were not only unable to extricate themselves from their economic predicament, but were further weighed down by problems like shortages of commodities, inflation, and mounting foreign debt. In a sense, we could say that the collapse of the former Soviet Union and the East European countries was, to a large extent, due to their failure to find an appropriate way and form for the effective integration of planning and markets within a socialist framework. This also serves to show the utmost importance of correctly addressing the question of the relationship between planning and markets.

Our party began to see the drawbacks of the planned system around the time of the Eighth National Party Congress. In 1956, Comrade Mao Zedong sharply criticized the planned system for its overcentralization of power in his article "On the 10 Major Relationships." Not long after that, he also discussed the need to attach importance to the study of the commodity economy and the law of value. Despite repeated structural readjustments aimed at arousing the enthusiasm of different quarters in subsequent years, no substantial progress was made due to the interference of "left" guiding ideas. After the Third Plenary Session of the 11th CPC Central Committee in 1978, our party restored the Marxist ideological line of seeking truth from facts as advocated by Comrade Deng Xiaoping. Thus we began bold theoretical explorations for ways of eliminating the drawbacks of the old planned system and establishing a new socialist economic system that accorded with our national conditions. In spite of some relapses, our understanding of the relationship between planning and markets in a socialist economy has been progressing and deepening over the past 10 years and more. In the early years of reform, we did away with the concepts of pitting regulation by market forces against socialism and equating mandatory planning with the planned economy, put forward for the first time the concept that we must integrate the planned economy with market regulation, and put this concept into practice. This theoretical advance, which represents a major breakthrough in socialist economic ideology, is of immense historical significance. In the mid-1980s, on the basis of a gradual deepening of reform and theoretical studies, the party adopted at the Third Plenary Session of its 12th CPC Central Committee the "Decision on the Reform of the Economic System." Besides emphatically pointing out that China was a planned commodity economy, it called attention to the fact that a major task of our reform of the economic system was to gradually improve the market system. In 1987, at its 13th National Congress, the party made concrete plans for establishing a new socialist economic system on the basis of further summing up the experiences of reform and opening. In the 1990s, the party and government have further deepened their understanding of the relationship between planning and markets as reform deepens. Comrade Jiang Zemin pointed out in his "Speech at a Meeting Marking the 70th Anniversary of the Founding of the CPC": "As

a means of regulating the economy, planning and market forces are objective needs of the development of the commodity economy based on large-scale socialized production. Although we may use both of them to a certain degree, they are not symbols of the differences between a socialist economy and a capitalist economy."

In modern economic life, there is an ever more complex and meticulous social division of labor, and laborers and economic organizations have independent economic interests. Thus, under socialist conditions, there are bound to be extensive commodity-money relations as well as markets. Faced with infinitely rich, complicated, ever-changing and multifarious demands, our enterprises, which number tens of thousands, must decide what, how much, how, and where to produce in accordance with market changes in order to bring production in line with demand. In other words, they must rely on the market to readjust the allocation of resources. In this sense, the socialist commodity economy is a socialist market economy. The commodity economy cannot exist independent of the market, and this is even the case in the advanced stage of socialism. Of course, the socialist market economy system we want is quite different from the capitalist system of the market economy, both in terms of ownership structure and mode of distribution. We uphold the leading position of public ownership on the one hand and strive to achieve common prosperity on the other.

The market economy that we want to vigorously develop is by no means the primitive and backward market economy of the period of classical capitalism. Neither is the market economy we wish to establish one which rejects planning and the state's conscious management of the national economy. An absolutely free market economy does not in fact exist in the capitalist countries of the West. Besides, our national economy has public ownership as its leading factor. More importantly, our political system is such that it can ensure scientific and planned regulation of the coordinated development and macroeconomic balance of the national economy. Viewed from another angle, planned regulation or active management in actual economic life is also something endogenous. Thus, planning and markets are things inherent in the socialist economy. They are inseparably linked and fused and they cover the whole of society and penetrate into all aspects of economic life. Since they have different functions and operate in different ways, there are bound to be disparities in the mode and specific form of integration at different levels and in different areas. On the whole, planning mainly seeks to readjust the deployment of major resources and the relationships between major social interests from the perspective of macroeconomic considerations, total supply and demand, structure, and so on, and deals with major development strategies for the whole country. Market forces, on the other hand, mainly operate in the realms of the microeconomy, daily production, and operational activities, as well as the deployment of relevant resources. In short, only by recognizing the fact that

China must develop a socialist market economy and affirming that both planning and the market are born of the socialist economy will we be able to correctly understand and handle the relationship between planning and the market. At the same time, only by recognizing that planning and markets have different operating mechanisms and levels will we be able to effectively and organically integrate planning and markets so that they can give full scope to their strong points and make up for their deficiencies. These two points should be our common consensus in handling relations between socialist planning and markets.

II

Since handling the relationship between planning and markets is the central issue in the establishment of the socialist market economy system, we have, besides making continuous efforts to deepen our theoretical understanding in the past 10 years or so, carried out the following five experiments in tackling the question of the relationship between planning and the market in the course of actual reform.

1. Giving more rights to lower levels to change an overcentralized system of decisionmaking. From the angle of decisionmaking, the biggest drawback of the old system which rejects the market is the overcentralization of power. The market mechanism is essentially a mechanism of decentralized decisionmaking. In this sense, decentralization is a prerequisite for the market to become a medium for the allocation of resources. The reason is that, if the vast numbers of commodity producers and managers cannot make their own decisions on matters of production, exchange, and investment in accordance with costs and changes in market demand, we cannot begin to talk about allocating resources through the market. This is the basic starting point we should have in mind when assessing measures for delegating power to lower levels and letting them retain a proportion of the profits in the early stage of reform.

Reforms aimed at decentralizing decisionmaking powers find concentrated expression in substantially reducing mandatory planning. A basic feature of a highly centralized planned economy is that it relies on large numbers of mandatory plans to realize the distribution of resources and regulate social production. The macroeconomic and regional allocation of resources and industries is determined by state plans, and so are the questions of what enterprises should produce, how much they should produce, and for whom they should produce. Because a rich variety of products is produced in the microeconomic sphere and demand is ever-changing, plans handed down from the top are not only unscientific but have low utility and will lead to a serious waste of resources. Meanwhile, since enterprises lack vitality and motivation it is necessary to give them more power in order to invigorate them and reduce the scope of mandatory plans which have the effect of restricting their activities. Since 1979, the state has gradually reduced the scope of mandatory planning in the spheres

of production and circulation. At present, the number of areas subject to mandatory industrial plans form the State Planning Commission has been reduced to about 60 from over 120, those subject to unified state distribution have been cut to 26 from 125, and those subject to planned purchases by state commercial departments have been reduced to 23 from 188. Commodities produced according to planning and sold according to planned prices have been reduced to below 30 percent of all commodities in society.

2. Readjusting prices and lifting price controls. If we believe that delegating power to the lower levels and letting them retain a proportion of profits is a prerequisite for creating market entities, then lifting price controls so that prices can readily reflect changes in market supply and demand is an important condition for the effective allocation of resources through the market. If we only regard prices as a means of accounting or auditing, its effects of inverse regulation may not be very obvious. However, if enterprises have powers of decision, especially in respect of matters of vital interest to them, but prices remain fixed and unreasonable, then market regulation will be negative and inefficient. Thus, if we want to give enterprises more decisionmaking power we must also lift price control. The following important steps have been taken in price reform since 1990. First, floating prices were introduced for some products in the electronics and machine-building industry by first lifting controls over small commodities and most industrial goods for daily use. Second, controls over a large variety of farm and sideline products in the cities were lifted so that production demand for all goods in the consumer goods market, with the exception of a small number of farm and sideline products like grain and oil, were basically regulated by price. Third, steps were taken to gradually raise the exceptionally low price of capital goods, and the "double-track pricing system" was introduced to those goods not eligible for price decontrol for the time being.

By 1987, double-track pricing was practiced for 40 percent of all capital goods varieties and accounted for over 75 percent of sales volume. Double-track pricing is a typical measure for a time when we are rejecting the past system and making the transition toward a system which integrates planning and markets. In essence, this means allowing prices to be used, within a given scope, as signals for stimulating production and deploying resources when the planning system still operates in the production and circulation of capital goods. Of course, due to its transitory nature, the integration of planning and the market is but the tacking together of two systems and a lot of frictions remain. In short, as a result of lifting controls over the price of capital goods, making upward price readjustments, and practicing the double-track system, prices have become an important regulatory tool and medium of resource allocation in the production and circulation of capital goods.

3. Reforming the unimodal system of circulation with state circulation departments carrying out the unified

purchasing and marketing of products and creating an open and multi-channel network of circulation. In line with direct planning in production, the production and marketing of the majority of industrial goods were kept apart under the old system. All enterprise products were purchased by state circulation departments (material, commercial and foreign trade departments), but whether or not they were marketable was the state's business. Under such a unitary system of circulation, gaps between total demand and supply and structural imbalances were commonplace. Following the expansion of the decision-making powers of production and circulation enterprises and the recognition of their independent interests, this highly centralized unitary circulation system naturally could not go on. Other forms of circulation, such as marketing by enterprises themselves, selective purchases by commercial departments, and integrated production and marketing emerged as required by the times. Meanwhile, due to the need to coordinate supply and demand, the stimulation provided by circulation earnings thus generated, and state deregulation, the nonstate sector in the sphere of circulation rapidly expanded, and a system of circulation with state circulation departments as the mainstay and involving other sectors took shape. This multichannel system of circulation is a prerequisite for the market mechanism to play its regulatory role in the commodity market. It is also an important reason for our successful first attempts at integrating planning and market in the sphere of circulation in recent years.

4. Developing and cultivating a market system. In order that the market can effectively allocate resources, prices must be elastic and the market must be well-developed and healthy. In other words, we need to have labor and financial markets in addition to commodity markets. Only in this way can labor and financial resources be deployed to those trades that need to be developed and to those enterprises that are competitive and have strong vitality. As far as the development of the commodity market is concerned, there are already over 10,000 farm produce markets, more than 3,000 wholesale markets for industrial consumer goods, more than 200 markets for large items like rolled steel, and nearly 400 trading centers for capital goods. The financial market is already taking shape. While efforts are being made to centralize the banking system and greatly increase the fund distribution capability of banks, a short-term money market based mainly on interbank borrowing, a long-term money market based mainly on various types of bonds, and a securities market based mainly on the circulation of securities, have also been developed. According to incomplete statistics, the number of institutions primarily engaged in securities transactions already exceeds 300 across the country. As regards the labor market, efforts have been made to optimize existing production elements within the state sector of the economy and to implement an all-personnel contract-work system and a temporary work system in respect of newly added production elements. In this way, local labor markets are beginning to emerge out of the nonstate economic sector and the newly added labor force in the state sector, thus

giving a powerful boost to market involvement and the allocation of resources in the process. At present, more than 8,000 labor market service units have been established by labor departments at and above county and city level.

5. Establishing a preliminary system of indirect control. Delegating power to enterprises and local authorities and lifting price controls does not mean that the central government no longer has anything to do with economic matters. It only means that direct control of the production and circulation activities of enterprises will be replaced by indirect control through macroeconomic management. Over the past 10 years or so we have carried out the following reforms aimed at establishing new regulatory means and developing new modes of management. 1) We have established a central banking system in order to give full scope to monetary policies in macro-control. We have also established a secondary banking system with the central bank (the People's Bank of China) playing the leading role, supported by specialized state banks. 2) We have made attempts to rely on economic means to regulate investment by replacing budgetary allocations for capital construction covered by the state budget with loans granted by the Construction Bank. 3) We have reformed the taxation system in order to bring into play the regulatory role of taxation in production, circulation, distribution, and consumption. 4) We have enacted and perfected various types of economic legislation in order to bring economic management into the legal framework. Through these reforms, we have accumulated new experience in macroeconomic management, examined the effectiveness of our macro-control measures, and discovered problems that need to be perfected in the future.

Reforms carried out during the past 10 years in the five areas mentioned above have brought about tremendous changes in our economic operational mechanisms. After overcentralized power and interest structures became more decentralized, the authority and interests of local governments and economic entities were strengthened. After a system where only administrative organs had any say in the allocation of resources was replaced by one that is more dualist in nature, the role of market information in the deployment of resources was obviously enhanced. After direct control, which relied solely on administrative organs and administrative means, was replaced by a system where regulation by planning and regulation by market forces existed side by side, economic means and indirect controls began to play a more important role in macroeconomic management by the government. Although the vertical organizational system of "pyramid-style" administrative coordination still exists, horizontal self-organized market mechanisms have begun to emerge. Due to changes in these four respects, our present economic operational mechanisms are no longer the simple planning mechanism prior to reform, nor is it a unitary market mechanism under the macro-control of the government, rather, it is a dualist mechanism where planning and markets have been integrated, but have yet to be organically fused into one.

This dualist mechanism or system represents a historic step forward compared with the planned system of the past. It brought about rapid economic growth during the 1980's. However, this dualist mechanism is still a long way from the socialist market economy that we want to establish because there are still market barriers and imperfections in the market system. Market barriers or blockades mainly find expression in barriers between different departments and administrative divisions. In the production sphere these barriers find expression in scattered production and duplication, with different localities and departments all making a bid to launch "short-term, cheap, and quick" projects with large profit margins irrespective of the availability of resources or local productive and economic conditions, which hinders the formation of a unified market. In the circulation sphere they find expression in efforts to stop the flow of local products to other places when these goods are in short supply or to stop the flow of goods from outside when supply exceeds demand. We say that the market is unhealthy mainly because when commodity markets are developing, production factor markets cannot keep pace with them. The fact that factor markets—such as the markets for capital, labor, technology, information, and real estate—lag behind in development makes it difficult for the regulatory role of the market to function normally.

Frictions between planning and market structures at the present stage find expression in the following respects: First, in respect of investment, the irrational pricing and the impact of investments by independent market-oriented economic entities on state industrial policies and regional policies have produced inconsistencies between the investment intentions of the central authorities and the investment direction of localities or enterprises. Second, in respect of production, planned production tasks are adversely affected by tasks subject to market regulation because of the downward bias on prices. Third, in respect of pricing, the huge price disparities produced by the double-track pricing of some commodities have produced "double distortions," with planned prices showing an extreme downward bias and market prices showing an extreme upward bias. Fourth, in respect of commodity circulation, distribution subject to planned allocations and distribution subject to market regulation influence and condition one another. Fifth, in respect of financial matters, there is a conflict between operational functions corresponding to economic entities and regulatory functions corresponding to specialized state banks. Sixth, with respect to enterprise behavior, the state of "double reliance" prevails, with enterprises keeping a watchful eye on the government on the one hand and the market on the other, although steps have already been taken to separate government and enterprise functions.

The 10 years between 1978 and 1988 was a decade which saw the fastest economic growth and the fastest improvement in the people's livelihood in China's history. As the function of the market in the allocation of resources

grew, the role played by consumer preferences also grew and the gap between supply and demand quickly narrowed. Changes in these two respects are not just tremendous achievements of reform. They are also the material foundation for further efforts to promote reform and establish a mechanism which organically integrates planning and markets. If we fail to see this, we will not be able to fully assess the great achievements of reform during these 10 years. However, if we only see this but fail to take note of the drawbacks produced by frictions within the dualist system and of the necessity and urgency of the task of tackling these drawbacks, we will miss the opportune moment for establishing a socialist market economy.

Problems produced by the coexistence of two systems show that the establishment of a new planned commodity economy system within the not-too-distant future through deepening reform is an important mission before us.

III

In order to accomplish this historic mission, our strategic tasks for promoting the organic integration of planning and the market in the intermediate and near future may be put as follows: Under the premise of maintaining political and social stability, we must strive to establish, within three to five years, a new market economy system which combines a competitive enterprise system, orderly markets, and regulation and control by the state. What we mean by competitive enterprises is that all enterprises operate in a truly open way. They are truly responsible for their own profits and losses, and their existence and development is determined by market forces. By orderly markets, we mean markets that are free of barriers. They are organizationally sound and complete with laws and regulations. What we mean by macro-control is that the state mainly relies on economic means, legal means, and the necessary administrative means to effectively regulate the national economy. In order to fulfill this strategic task, we must deepen and perfect reforms in the following areas in the near term:

1. Deepen reform of the enterprise system so enterprises can truly become independent commodity producers responsible for their own profits and losses and capable of developing and restricting themselves. Enterprises are at once economic entities and subjects of state regulation and control. In order to properly integrate planning and the market, the important thing is that enterprises must be able to quickly respond to market information and state regulation and control. In order to do this, it is necessary to explore ways of reforming the system of property rights of state enterprises so as to tackle the problem of soft budgetary constraints on state enterprises and a tendency toward short-term activities after implementing the contract system. The modern joint-stock company is perhaps the answer to this. The following methods may be adopted to move from the present contract system to a system where the state has

the controlling share with state organs, mass organizations, and staff members and workers acquiring partial shares: 1) New enterprises established with funds pooled from various quarters may consider adopting the joint-stock system. Under this system, investors are entitled to profits and decisionmaking powers in proportion to their share of the investment. 2) Old enterprises which meet the necessary conditions may switch to the joint-stock system on entering into cooperative ventures with foreign or local enterprises. Trial applications at selected units during the past few years show that efforts should be made to prevent enterprises from taking advantage of the switch to the joint-stock system to turn profits into wages. In experimenting with the joint-stock system in state enterprises, it is necessary to make proper arrangements and do so in an orderly manner. They should not rush headlong into it.

We cannot introduce the joint-stock system to all state enterprises at the same time. For the majority of enterprises, the most pressing task is to readjust the structure of existing production elements and improve economic performance. Those enterprises which have more liabilities than assets, are suffering heavy losses, or are producing inferior and unmarketable goods should be suspended, liquidated, or merged with others that are doing well. As far as enterprises which are operating poorly and are incurring heavy losses are concerned, the difficulties of declaring bankruptcy and the pressures against such a move do not come mainly from the state, because by declaring bankruptcy the state will be able to remove a financial millstone and will allow the factory premises, equipment, and labor to be put to better use. Pressures against bankruptcy come mainly from the staff and workers, because their income will be affected after they lose their jobs. Moreover, since China practices a system where welfare and insurance benefits go with jobs, a loss of employment means the loss of welfare and insurance benefits. Thus, out of the need to maintain political stability, the state tends to let enterprises that should no longer exist go on producing goods. Thus, in order to readjust the structure of existing production elements we must work out ways of mitigating losses of income, welfare, and insurance benefits inflicted on staff and workers by the liquidation of enterprises. This requires that we speed up reform of the labor insurance and welfare systems. On the one hand, welfare, relief and insurance functions now shouldered by enterprises should be passed on to the state. On the other hand, unemployment relief and insurance funds should be established with contributions from individuals, society, and the enterprises.

2. Continue to push forward reform of the pricing system. Without a rational price structure, it is impossible to effectively carry out market regulation. Thus, we must make the best of the present opportune moment, when a basic balance has been maintained between supply and demand for several years running and the gap between double-track pricing is narrowing, to lift price controls over the majority of capital goods and do away

with the double-track pricing system on the basis of controlling total demand. Raw and semifinished materials needed by key state projects and key large enterprises may be ordered from the state with guaranteed quantities but not guaranteed prices. The basic principle for merging the two pricing tracks is that, in the case of commodities where supply and demand are basically balanced, the planned track should be merged with the market track. In other words, price controls should be lifted. As for commodities with a large gap between supply and demand, where planned prices are well below market prices (these refer mainly to basic industrial goods), efforts should be made to substantially raise the level of planned prices, and through price readjustments and simplifying the forms of planned prices, gradually bring about a single consolidated planned price.

Lifting price controls is a precondition for the effective regulation of the market. However, this alone does not mean the formation of markets. While rationalizing prices, it is necessary to positively develop new organizational forms of circulation that are conducive to the smooth and steady flow of goods. In major producing and marketing areas for farm and sideline products and capital goods, efforts must be made to improve existing spot markets, and through the establishment of organized and guided wholesale markets, to raise the organizational level of these spot markets. Meanwhile, on the basis of energetically developing long-term contracts, we should also conditionally introduce mechanisms for futures market and develop futures trading. We should encourage and develop joint operations, joint purchase, joint marketing and other forms of horizontal ties between production, supply, and marketing; energetically develop the construction of transport and storage facilities and the information trade; establish and improve the market system, including financial, labor, and real estate markets, in conjunction with reform of the monetary, financial and labor systems; and make every effort to change the present situation where, in the development of our country's markets, production factor markets lag far behind.

3. Establish and improve market laws. A precondition for the organic integration of planning and markets is that the market activities of enterprises must be carried out in accordance with the law and must abide by the relevant behavioral norms. The present confusion and lack of efficiency in market competition have a lot to do with the lack of a healthy set of market laws. We must, while sorting out existing laws and regulations, step up the formulation of basic laws and regulations, such as company law and fair competition laws, for maintaining market order, keeping enterprises in check, and strengthening judicial work on this basis.

4. Improve work planning and strengthen the ability of the state in macroeconomic regulation and control. For a large developing country like China, where regional differences are vast and market development has yet to reach maturity, it is entirely necessary to strive to make our plans truly accord with economic laws. If we say that

planned regulation and control without a market is planned regulation and control without a base, then a market without state regulation and control is an inefficient and blind market. In order to properly integrate planning and markets, we not only must form and improve markets but must improve and perfect planning. We must also improve the state's ability in macroeconomic regulation and control, improve planning, make sure plans are more scientific and in conformity with actual needs, and have a good grasp of the direction of economic development. At the same time, we must establish a scientific process for making planning decisions. The readjustment of relations between major economic sectors, the determination of major projects, and the introduction of major economic policies must be done according to the appropriate procedures and must go through counseling, comparisons, and feasibility studies. A responsibility system for planning decisions should also be established. Policymakers who violate the decisionmaking process and make serious mistakes as a result should be held responsible. With regard to strengthening the state's ability in macroeconomic regulation and control, an important experience we have gained in the past years is that we must control total demand by controlling investment in order to maintain a basic balance between supply and demand. When total demand has been kept under control, all other work can easily be taken care of. Moreover, we also need to have good industrial policies and to ensure their implementation we should through offer discount rates, state support, preferential taxation terms, and other means in order to rationalize the industrial structure. We should also form a vertical management system with unified management and separate regulation and control by rationally dividing financial and administrative powers. On the basis of ensuring the proper management of affairs of major significance, provincial governments should be given appropriate and necessary powers of regulation and control so that they can bring into play local enthusiasm and creativity in developing the economy and can create their own unique forms of integrating planning and markets which meets local needs.

Scientist Views Socialist Market Economy

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[Article by Liu Guoguang (0491 0748 0342) deputy head and researcher of the Chinese Academy of Social Sciences: "Several Theoretical Issues in Respect of the Socialist Market Economy"—This is the draft of the opening speech delivered 19 September 1992 for a series of lectures entitled "Reform, Opening Up, and Economic Development in the 1990s," jointly sponsored by the Organization Department and Propaganda Department of the CPC Central Committee, the China Association for Science and Technology, the CPC Central Committee Work Committee for Organs Under the

Central Committee, and the CPC Central Committee Work Committee for Central Government Organs]

[Text] In the high tide of studying Comrade Xiaoping's speeches during his trip to the south, one of the questions which has aroused intense discussion and gained great attention from everyone is that on the socialist market economy. Actually, this is not a new question. On 26 November 1979, when meeting the deputy chief editor of the U.S. *Encyclopedia Britannica* Comrade Xiaoping said: "It is certainly incorrect to talk about the market economy as being restricted to capitalist society or to a capitalist market economy. Why cannot socialism have a market economy? Sprouts of the market economy appeared during the feudal society period. Socialism can also have a market economy." In 1985, when meeting a delegation of U.S. businessmen, Comrade Xiaoping again put forward this idea. At the beginning of this year, during his trip to the south, he again made an overall and incisive exposition on the question of planning and the market, spurring us to further think about the socialist market economy issue. The series of explications by Comrade Xiaoping on the issue of planning and the market are an important component in establishing a theory of socialism with Chinese characteristics. We must seriously study and master them and then implement them during the course of reform and development of our country's socialist economy.

I would like to talk about two matters: First, I would like to introduce the relevant theoretical discussions which have taken place over the last few years on the question of the socialist market economy. That is, I would like to introduce the complicated process of change which has taken place in understanding the issue of planning and the market (including the concepts of the planned economy, the commodity economy, and the market economy); second, I wish to discuss my own understanding of some central issues in the theory of the socialist market economy gained through studying Comrade Xiaoping's speeches during his trip to the south.

I. The Complicated Process of Change Which Has Taken Place in the Understanding of Planning and the Market (Including the Concepts of the Planned Economy, the Commodity Economy and the Market Economy)

Our country's economic structural reforms have been going on now for 13 years and the economic theory circles have, for many years, been discussing the sort of target model we should adopt in our reforms. The crux of this issue has been how to correctly understand and handle the relationship between planning and the market and this has involved how we understand the planned economy, the commodity economy, and the market economy. Our understanding of these questions has been a process of gradual deepening and we have gone through a long period of complex exploration.

On the concepts of commodity economy and market economy, it appears that Marx and Engels did not say

anything about them. They only talked about commodity production, commodity exchange, and a monetary economy. Likewise, they did not speak of the planned economy. They only spoke of where in the future society there would be "social and planned distribution of labor time to regulate the ratio between the various labor functions and various demands." The first person to use the concepts of "commodity economy," "market economy," and "planned economy" was Lenin. In the early period following victory in the revolution, Lenin repeatedly noted that the commodity economy would be eliminated, that capitalism would be inevitably replaced by socialism, and that this new society would implement a planned economy. However, Lenin also said that comprehensive planning was an empty hope and he opposed such planning. During the period of implementing the New Economic Policy, not only did he allow the development of free trade, but state-run enterprises also implemented commercial principles (market principles) to quite some degree. This gave the enterprises the freedom to engage in free trade in the market. At the end of the 1920s and the beginning of the 1930s, Stalin abrogated the New Economic Policy and implemented a planned economy which excluded the commodity economy. Thus, for a long time, the commodity economy was seen as being opposite to the planned economy. Although Stalin also spoke of commodity production and the law of value, he limited their roles to within a narrow range and the guiding ideology was still one which saw the planned economy as being incompatible with a commodity economy and the market economy being even more antagonistic.

In the past, during periods when socialist countries implemented planned economies, it was not the case that there were no markets. However, the market only played a supplementary role and existed just in a small sphere. Our country was also like this before reform. For example, it was a case of mainly relying on plans and only a small amount of market trade. People were allowed to trade in the markets but only the three types of materials were allowed to be sold. However, generally the market was limited and the commodity economy and market economy were not recognized. After the Third Plenary Session of the 11th CPC Central Committee, there was some relaxation and it was recognized that planning and the market could be combined. The resolution of the Sixth Plenary Session of the 11th CPC Central Committee which summed up the historical experiences since the founding of the PRC, affirmed that in socialist society commodity production and commodity exchange exist, and thus, there is a need to take the law of value into consideration. However, it did not mention "commodity economy." At that time, it was still held that a commodity economy, as an entity, could only exist in a capitalist society which was based on private ownership. At the 12th Party Congress, the idea of "the planned economy as the main part and regulation through market mechanism as a supplement" was put forward. Even advancing to this stage, it was still difficult to put forward the "commodity economy" concept.

However, prior to this, the theory circles had already discussed the socialist commodity economy and some people had even put forward the idea of a "socialist market economy." As to Comrade Xiaoping's discussions when he met the deputy chief editor of *Encyclopedia Britannica* on 26 November 1979, at that time nobody knew about them. Thus, in that period, the concepts of commodity economy and market economy were still a no-go zone. It was only in 1984, at the Third Plenary Session of the 12th CPC Central Committee that, for the first time in a formal party document entitled the "Decision on Economic Structural Reform," it was put forward that "the socialist economy is a planned commodity economy based on public ownership." This was a major breakthrough in socialist economic theory. At the meeting to pass this "Decision," Comrade Xiaoping said that the decision by the Third Plenary Session of the 12th CPC Central Committee was new Marxist political economics and he appraised it highly. Clearly, it was not easy to achieve this breakthrough. Considering the historical background whereby the authors of the classics, including Marx and Engels, had formerly envisaged that future socialist society would not have a commodity economy, and whereby over several decades of socialist practice the market mechanism had been excluded, we can say that the new judgement on the socialist planned commodity economy made by the Third Plenary Session of the 12th CPC Central Committee, was of epoch-making significance. This has undoubtedly played a major role in the subsequent market-oriented reforms and in the developments achieved.

However, after the new thesis was put forward by the Third Plenary Session of the 12th CPC Central Committee, various people, including those in the theory circles, began to have very different understandings of what constituted a planned commodity economy. In respect of the "planned commodity economy" proposition, some comrades placed stress on the "planned" aspect, while others stressed the "commodity economy" aspect. Of course, everyone recognized both aspects but they had different points of emphasis. A professor from Beijing University noted in one article: "The basic line of thought in reform involves first, the commodity economy, and only then, planned development." He placed stress on the commodity economy aspect. At the same time, a People's University of China professor wrote an article noting: "The planned economy, or regulation through planning, should always occupy the dominant position in a socialist economy." His point of stress was the planned economy. Because their points of emphasis were different, their understanding of the essence of the socialist economy also differed and their ideas on the orientation of reform thus also diverged. Actually, when talking about the characteristics of a socialist economy, overall there are two major characteristics: "Public ownership" and "distribution according to work." Is there a third characteristic? If there is, is this third characteristic a "planned economy" or a "commodity economy?" The debate in the theory circles is

still continuing and both opinions exist. One stresses the planned economy as the main part, holding that the planned economy is an essential characteristic of a socialist economy. The other view stresses the commodity economy as the main part, holding that the commodity economy is an essential characteristic of socialism. Of course, there is a third opinion, and many comrades want to balance the two, combining planning and the market, so that they play equal roles. They hold that the scope, mode, and degree of combination can differ depending on the product, department, ownership system, and region. In different situations, one or the other can play a more important role. In the formulation "the structure of the planned economy is a structure in which planning and the market are unified," which was put forward by the 13th National Congress, although neither aspect was said to be primary and neither was said to be supplementary, in the indirect regulatory and control formulation of "the state regulating and controlling the market and the market guiding the enterprises," which was put forward at the same time, stress was actually placed on the market aspect. This was the situation prior to the political disturbance in 1989 regarding the relationship between the planned economy and the commodity economy and between planning and the market. The trend in theory circles was one of moving gradually towards the commodity economy and towards the market. However, after this, and especially after the policy of "combining the planned economy with regulation through market mechanism" was put forward, because of the needs of economic improvement and rectification and the need to stabilize the situation, it was necessary to have a bit more centralization and a bit more planning. At that time, the trend in theory discussions was one which slanted towards the planned economy. One article noted that the essence of a socialist economy is a planned economy and it is only at the present stage that it has a few commodity attributes. This view has been quite typical over the last two to three years. However, at the same time, another idea has existed which holds that continuing to uphold the commodity economy is of crucial importance for the socialist economy. For example, one article noted that the socialist commodity economy is, like public ownership and distribution according to work, an essential element of socialism. In respect of the formulations put forward in formal documents over the last few years, on the question of combining the planned economy and regulation through market mechanism there has also been some internal debate within the theory circles. Some comrades say that the planned economy refers to an economic system or structure, while regulation through market mechanism is a mechanism or method. The two issues are thus at different levels and it is not right to talk about combining them. However, in the openly published articles, everyone uses this formulation. Some economists, when verifying the scientific nature of this formulation, have said: This formulation is linked with the formulation of "planned economy as the main part and regulation through market mechanism as a supplement" put forward previously. This shows that our

reforms are not weakening in abandoning the planned economy but intend, under the precondition of upholding the system of a planned economy, to implement a certain amount of regulation through the market. However, the comrades who do not endorse this formulation hold that this explanation is a return to the period before the 13th National Congress. This, however, is a private debate. In sum, over the last two to three years, there has been an unending debate in theory circles about the relationship between planning and the market. Over the last few years, discussion has centered on two questions: The first is the question of market orientation. That is, a question of whether the orientation of China's economic structural reforms should be oriented towards the market. The second is a question of the socialist market economy. That is, a question of whether or not our socialist economic structural reform can take the socialist market economy as a target model. It is obvious that these two questions are tightly linked.

First, let us talk about the issue of the orientation of reform.

A famous economist has summed up ideas on the orientation of reform into three lines of thought. The first is the theory of market orientation; the second, the theory of planning orientation; and the third, the theory of combined planning and the market. This summation seems very succinct and straightforward. However, it is not very precise and does not fully represent the dividing lines in debate among the economic theory circles on this question. This is because after the thesis of the planned commodity economy was put forward by the Third Plenary Session of the 12th CPC Central Committee, a large number of comrades in the theory circles gradually came to a common understanding and held that planning and the market could be combined and should be combined. This common view is held both by those who place stress on the planned economy and by those who place stress on the commodity economy or the market. However, when the three views are put forward as noted above, it appears that those who hold to the first two views do not support the combination and it looks as if only the third viewpoint endorses combination of planning and the market. This, naturally, is not in accord with the actual situation. Actually, those who stress the market orientation do not exclude planning and those who feel that planning should hold the primary position do not exclude the market. In respect of the idea of "market-oriented reforms," some comrades, including some scholars in the Chinese Academy of Social Sciences, have not only spoken of this but have committed the idea to writing and it is now on record. However, we have not seen the formulation of "planning-oriented" reform. There have been some persons who have stressed the planned economy as an essential characteristic of the socialist economy, and there are some who have stressed planning as the main aspect, but we have not seen the formulation "planning orientation." This is because our original structure was a planned economy structure and the reform has been aimed at transforming the traditional planned economy. Thus, reform could not be

planning-oriented. If planning remained the orientation, that would be the same as not engaging in reform. It is for this reason that there has been no formulation such as "planning orientation." It is also for this reason that we say that the abovementioned division is not precise. However, the comrade who put forward this tripartite division has his own ideas on the meaning of reform orientation. It appears that he takes reform orientation to mean the choice of emphasis either on the market or on planning in the target model for reform. If the point of stress is planning, then it is the theory of planning orientation, while if the point of stress is the market, then it indicates a theory of market orientation. If the two have equal weight, this is the theory of combination of the two. My personal opinion is that reform orientation does not have this meaning. It does not refer to making a choice between planning and the market as the point of emphasis in the reform target model. Rather, it refers to the direction in which the model is transformed during reform. That is, it refers to the direction of the transformation from starting-point model to the target model. The model transformation in our country's economic reform involves a transformation from the starting-point model of a planned economic system, which is based on the natural economy, and the product economy, which excludes the market and is excessively centralized. Through drawing in and expanding the scope of the market mechanism, and transforming the traditional planned economy in accordance with the demand of market patterns, it will achieve a planned commodity economy (or socialist market economy) target model in which planning and the market are combined. We believe that reform in which we move from a situation where the role of the market mechanism is excluded or limited to where it is brought into play and strengthened, and where the traditional system is reformed in accordance with market patterns, can be called market-oriented reform. The results of the reform will first be manifested in progress in the market orientation of our country's economic structure and economic activity.

We know that prior to reform, our ownership structure was unitary and it was believed that the bigger, the more public, the purer, and the more unified it was, the better. The economic operational mechanism at that time was mainly one involving mandatory planning and management through direct administrative orders. Such a mechanism was necessary for a certain period. For example, during the period of the First Five-Year Plan, the adoption of this mechanism was successful. However, by its nature, this mechanism excludes the market and the role of the market mechanism. Thus, when the market developed to a certain stage, this mechanism became an obstacle to further development of the productive forces. Thus, if we wanted to further liberate and develop the productive forces, it was necessary to engage in reform. After the reforms, our ownership structure became a plural ownership structure where the public ownership structure system constituted the main part and the autonomy of the enterprises under the public ownership

system began to see some expansion. This provided certain conditions for enterprises to operate in accordance with market patterns. At the same time, our market system and market mechanism were also growing and developing and the government's macroeconomic control of enterprises had gradually begun to change from direct management to mainly indirect management. What is meant by indirect management is actually management through the market, using the market mechanism and pricing levers. This is the basic meaning of the formula "the state regulates the market and the market guides the enterprises."

Our economic reforms have brought the following changes: The pluralization of ownership systems, the market-orientation of economic entities, the development of the market itself, government management of the economy through the market, and so on. These have been widely manifested as a process of continual expansion and continued deepening of market-oriented reforms. Of course, this market orientation does not have the private ownership system as its base. Rather, it has public ownership as its base. It is not an orientation heading towards an anarchic, blind market but an orientation towards a market system which is managed on the macroeconomic level and is regulated and controlled through planning. In the last 12 or 13 years, the great developments and achievements realized in our country's economic reforms actually have been the result of strengthening planning through administrative orders, or the result of expanding the role of the market mechanism and transforming the traditional planned economy mechanism in accordance with the demands of developing the market mechanism? The answer is clearly the latter. Why is it that the development of our country's southeastern coastal regions over the last more than 10 years has been faster than the average speed of national development? Along the coast, why has Guangdong developed more swiftly than Shanghai? A very important factor in this has been that the market-oriented reforms have been deeper.

In the past, there were many comrades who did not endorse, or even opposed the putting forward of, market-oriented reforms. There were two major reasons why they did not support these: 1) They held that engaging in such orientation towards the market was engaging in a market economy, and in the past, a market economy was considered to be capitalist. 2) They believed that some negative phenomena which had appeared in our country's economy, such as inflation, the chaos in the market, and the inequality in social distribution which occurred in 1988 were the result of stress being placed on the role of the market. The first reason ceased to exist following Comrade Deng Xiaoping's speeches during his visit to the south this year. In respect of the second reason, some comrades believe that these negative phenomena are difficult to avoid in the early period of reform and developing a commodity economy. They feel that these problems are not the result of the market being developed excessively, but rather, the product of the market

being insufficiently developed. They are the result of the market not having been truly developed and the government macroeconomic regulation and control not keeping pace with change. Thus, they see these as transitional phenomena, not resulting from excessive reform but stemming from insufficient reform. If we wish to resolve these negative phenomena which have appeared in economic life, we need to continue to implement market-oriented reforms in which there is macroeconomic regulation and control and planned guidance and implement these reforms fully.

Second, let me introduce the discussions which have been going on in respect of the question of the socialist market economy.

The discussion on this question has been going on for a long time, since the beginning of the reforms. Recently, following Comrade Xiaoping's speeches and the speech by the party general secretary at the party school, there has been even more discussion of this subject. However, these have all been positive things and we have not observed any difference in opinion. For a long time past, there has been debate between different ideas. At the beginning of the reforms, in April 1979, a conference was held in Wuxi. This conference was to discuss the law of value in a socialist economy. At this conference, some people put forward the concept of a socialist market economy. Some persons endorsed this idea, while others did not. Also, at that time, the formulation of combining a market economy and a planned economy was also put forward. The Third Plenary Session of the 12th CPC Central Committee put forward the judgement that our country's economy is a planned commodity economy. When studying the decision of the plenary session on structural reform, a veteran economist from Guangdong said that the theory should be a little more deep-going and that actually the socialist commodity economy could be called a socialist market economy. Some other comrades said that there was no need to differentiate between the concepts of a commodity economy and a market economy but that it is necessary to distinguish a socialist market economy from a capitalist market economy. However, at the same time, opinions which opposed this idea were also put forward. At that time, a professor said that the concept of a market economy was clearly defined in Western economic writings and that in the works of Japanese economists, three principles of a market economy were noted: The first is that private property is sacrosanct and inviolable; the second is the principle of freedom to enter contracts; and the third is the principle of self-responsibility. It can be seen, he argued, that according to the understanding in Western economic writing, the classical market economy is a capitalist economy. He further held that "a socialist planned commodity economy is not a market economy." This debate continued for quite a time. Then, in 1988, the State Council approved Guangdong as a comprehensive reform experimental region and the Guangdong economists, in order to engage in some advance exploration on the theoretical level, convened a conference on

the question of a market economy during the primary stage of socialism. This put forward, in an obvious way, the question of a market economy in the primary stage of socialism. The conference came to a common understanding that a capitalist market economy exists based on private ownership and that there should be a socialist market economy based on public ownership, while there was a free market economy which did not have planned regulation and control, there should also be a planned market economy subject to macroeconomic regulation and control. They held that we should study and put into practice a socialist market economy and develop it. In the last half of 1988, another two important national academic conferences were convened. The first was a national conference held at the end of October on the theory of economic structural reform. The second, which was held in the memorial hall in December, was a conference to examine economic theory in the 10 years subsequent to the Third Plenary Session of the 11th CPC Central Committee. At both of these conferences, persons proposed that the concept of the commodity economy should be further developed to the concept of the market economy. They also proposed that we urgently needed to establish a theory of a socialist market economy. These things occurred prior to the political disturbances at the beginning of 1989. This was generally the same situation as occurred in the theory discussions on planning and the market, as noted above. At that time, two opinions existed in the theory circles. However, an increasing number of comrades inclined to the side which stressed that the commodity economy is the most important aspect of the two aspects in the socialist planned commodity economy and an increasing number of comrades began to use the market economy concept.

After the spring and summer of 1989, at the same time as the economic circles were correctly engaging in criticism of the ideological tide of bourgeois liberalization centered on the advocacy of private ownership, some internal reference materials also carried criticisms of the concept of a socialist market economy. In open discussion there was also debate between different viewpoints. One view was that we could not accept the concept of a market economy. One comrade, in an article entitled "What Is a Market Economy?" published on 17 June 1989, noted that the market economy is a concept with quite a standard and specific definition. It is based on private ownership, decisionmaking is highly dispersed, and all economic activities are governed by the so-called invisible hand, or market forces. He held that some Western states linked the market economy with private ownership and with capitalism. Thus, many politicians and scientists in socialist countries did not arbitrarily say that developing a socialist commodity economy is engaging in a market economy. He held that it was alright to talk about developing a commodity economy but we should not engage in a market economy. He said that the formulation socialist market economy is nothing more than using the capitalist market economy as a model for the reform of the socialist economy. In brief, this view linked discussion of the market economy and

the planned economy with the socialist system, asserting that the market economy was capitalist and that if socialism followed a market economy, it would be engaging in capitalism. Of course, there were some comrades who did not support this view. They believed that we should not link the question of the market economy with the question of the socialist system and they said that the market economy is nothing more than a "synonym" for a modern commodity economy or modern monetary economy. Some economists said that the issue of our country's economic structural reform involves having a mode of resource deployment based on the market economy replacing a mode of resource deployment based on administrative orders. In this sense, the socialist commodity economy can also be called a socialist market economy. These two different opinions have continued to exist.

Let us also have a look at how the veteran economist Comrade Xue Muqiao looked at this question. Old Xue, when speaking on 11 January 1991 with a reporter from Shenzhen's TEQU SHIBAO, said: "It is necessary to deepen research into the relationship between the planned economy and the market economy. In the past, the former was considered socialist, while the latter was seen as capitalist. This understanding is very disadvantageous to deepening reform. The question of whether or not the market economy and regulation through the market are two things which must not be confused still needs further discussion. I believe that essentially they are the same but they cannot be equated with capitalism. As long as the public ownership of the means of production is maintained as the main part, then we cannot say that a market economy is capitalist. Thus, we should still use public ownership as the dividing line and not use the market economy as the dividing line." Old Xue also said at that time: "This problem is not yet ripe and some might still see it as a theoretical no-go zone. Scientific research should not have no-go zones. We should allow free discussion and seriously explore this question, rather than avoid it." The discussion of different opinions, and even engaging in heated arguments, is necessary and beneficial in deepening our understanding and is normal. There was discussion between the two viewpoints on the socialist market economy right up to the beginning of this year, when Comrade Xiaoping travelled to the south and provided an incisive explanation. Comrade Xiaoping said that a market economy is not equivalent to capitalism because socialism also has a market. A planned economy is not equivalent to socialism because capitalism also has planning. After Comrade Xiaoping made his speeches the viewpoint which saw planning and the market, as well as the planned economy and the market economy as associated with specific systems, began to decline. However, in order to fully resolve this issue on the conceptual level will require a certain period of time. This is not only true in respect of the concept of the market economy but will also require a change in the former concept of the commodity economy. In the early period of reform, it was recognized that socialism must develop commodity

production and develop commodity exchange. However, at that time it was not possible to accept the concept of a commodity economy as it was believed that the commodity economy required private ownership and that, speaking overall, a commodity economy could only be capitalist. From the Third Plenary Session of the 11th CPC Central Committee to the Third Plenary Session of the 12th CPC Central Committee, many years of effort were expended in achieving a switch in this concept. Achieving change in a theoretical concept is very difficult. The concept of socialist profit put forward by Sun Yefang at that time also met similar difficulties.

The theory of a planned commodity economy which we put forward in the 1980s played a promotional role in our country's economic reform and development. In the 1990s, as our reform is being deepened, particularly market-oriented reform, we need a new theory, a theory of a socialist market economy. The emergence of this theory will definitely promote the further deepening of our reform and development.

II. Several Key Issues

I would now like to give my personal opinions on some key issues of concern to people in the discussions on the question of a socialist market economy theory.

1. Why must the wording socialist commodity economy be changed to socialist market economy?

In the discussions, some comrades have asked why, given that we already have the concept of a socialist commodity economy, we now need to change this to "market economy." What is the actual difference between "market economy" and "commodity economy?" Some economists have written articles noting that the socialist commodity economy is a socialist market economy. There was no real need to make such a fuss about stressing the "is" and it would have been alright just to put "socialist market economy" in brackets after "socialist commodity economy."

I believe that this is not only a difference in wording but has deep-going significance. First, we have to clarify what is meant by the two concepts of commodity economy and market economy. These two concepts are linked but have differences. Simply put, the commodity economy is spoken of relative to the natural economy and the product economy and relates to whether or not, in human socioeconomic activities, there is a commodity nature and whether or not there are relationships in which there is compensation at equal value. Explaining this at a basic level, if I give you something, you would give me something of equal value. It might be a commodity of equal value or an amount of money corresponding to that value. However, a natural economy does not have this compensation at equal value or commodity exchange relationships. The product economy is a modern concept and it was envisaged that a socialist or communist society would be like a large factory. There would be no money and no need for exchange. The various production units and various

enterprises would be like different workshops in the factory. After things were produced, the products would be distributed and allocated by society. The various production units and members of the society would then, with their identification, go and collect their goods on the basis of targets or quotas. Thus the commodity economy is spoken of relative to the natural economy and the product economy.

The opposite of the market economy is the planned economy. This is speaking in terms of resource deployment. Here, I wish to speak a little about resource deployment. Resource deployment is a term which was little used in our country in the past. However, the concept is now being increasingly employed because this is a central issue in economic life. Here, what is meant by resources is not untapped natural resources but economic resources such as labor, materials, funds, and land which can be used and deployed. Socioeconomic resources are always limited, while social demand for resources is always diverse and unlimited. Resource deployment refers to how society allocates its limited resources for production in the various spheres, sectors, and production tasks. The more effective the deployment, the better the production results and the more effectively can social demand be satisfied. In modern socialized production there are basically two modes of resource deployment. One is the market mode and the other is the planning mode. The planning mode involves distribution and allocation in accordance with administrative orders and quotas. It is controlled by the government. Market deployment involves deployment on the basis of price changes resultant from changes in market supply and demand. If the price of a particular product is high, the production of this product will generate profits and resources will thus flow into it. When there are a large number of that product being produced, supply will exceed demand and the price of the product will fall. At such a time, resources will flow to other places. This is called regulation through market mechanism. If the resource deployment mode has planning as the main part, the economy is referred to as a planned economy. If the market is the main mode of resource deployment, the economy is called a market economy. If we speak in terms of the resource deployment mode, the market economy and the planning economy are opposite concepts.

From the abovementioned division, we can understand that, from the angle of logic, the commodity economy lies at a quite abstract, essential level of content, while the market economy lies at a more specific phenomenal level of form. It can be said that the market economy is a highly-developed phenomenal form of the commodity economy. If we examine this from the angle of historical development, we find the same thing. The commodity economy has existed for a long time. It had already begun to sprout by the end of primitive society, has existed within many social forms, and has subsequently evolved to its present high level of development. However, every stage of development of the commodity

economy did not have a market economy. Some commodity exchange has, of course, been through markets but that is not equivalent to a market economy. In ancient times, and in the middle ages, there were quite developed commercial cities along the coasts of the Mediterranean Sea, while in ancient China during the Qin and Han dynasties, there were famous commercial cities such as Changan, Luoyang, and Linzi. There was also the silk road, linking Europe and Asia. None of these can be separated from markets but we cannot consider them to have been market economies. Around the ancient forts in foreign countries there were local markets while, in our country even now in some distant and backward regions, there are still market fairs. Clearly, these market fairs held at fixed intervals are also markets but they cannot be said to be market economies. They are simply venues where the people who live in the vicinity can obtain what they need and dispose of their surpluses. To form a market economy, certain conditions are necessary. That is, that commodities and production factors can freely circulate within the scope of the whole society, so that they can be deployed to the places and uses where they will be most effective. This requires the elimination of the feudal divisions which exist domestically and of the various artificial obstacles which obstruct the free flow of resources. When the commodity economy develops to a certain level, there is a need for a unified domestic market and a gradual extension of the world market. The formation of the modern nation states and great geographical discoveries which occurred almost at the same time, created the historical conditions for the gradual formation of this unified market and the historical background for the formation of market economies. Thus, it is said that the market economy is the product of a highly-developed commodity economy. This idea derives from the basic economic viewpoint of resource deployment. The great significance of resource deployment in economic life is something we have only gradually come to recognize through the reforms. When the concept of a planned commodity economy was put forward back in 1984, understanding of this point was still limited. The market economy concept we are now putting forward to replace the planned commodity economy concept stresses that we must further develop the commodity economy, and on the question of resource deployment, we must clearly use a mode which primarily involves deployment through the market to replace the mode which mainly relies on deployment through administrative plans. This is where the essence of our country's current reforms lies and this essence is not one which the concept of "planned commodity economy" can contain and give expression to.

Seen from the process of the development of our understanding, the concept of a planned commodity economy put forward by the Third Plenary Session of the 11th CPC Central Committee was indeed a major breakthrough in socialist economic theory. It had major significance in promoting the historical process and it also had certain unavoidable historical limitations. As has

been analyzed above, it could not fully resolve the problem of whether planning or the market should be the basic mode or basic measure in resource deployment. This led to continual dissension and divisions between people on understanding the relationship between planning and the market. People are still unable to break free from the fetters of the idea which sees the planned economy and the market economy as categoric indicators distinguishing two different social systems. This has also obstructed people from deeply understanding the irreplaceable role of the market mechanism in optimizing resource deployment and promoting the development of the social productive forces. In the speeches made by Comrade Xiaoping in his trip to the south at the beginning of this year, it was pointed out that the planned economy is not equivalent to socialism because capitalism also has planning. Also, the market economy is not equivalent to capitalism because socialism also has a market. Planning and the market are both economic levers, and whether planning or the market predominates is not a basic differential between socialism and capitalism. This scientific judgement essentially breaks through the traditional concept which saw the planned economy and the market economy as categories distinguishing basic social systems. This has also helped us deal with our phobia about capitalism, which we had frequently seen on the question of the market and the market economy. It has encouraged people to proceed from the basic economic viewpoint of resource deployment and to think in a completely new way about the issue of making a socialist market economy system the target model for economic reform. This is undoubtedly a new breakthrough in socialist economic theory in the early 1990s, following on from putting forward the socialist commodity economy concept in the early 1980s. This breakthrough will have major influence in our country's reform and opening up and future economic construction.

2. Because planning and the market are both economic measures, why are we now changing or developing the concept of a socialist planned economy into the concept of a socialist market economy? Above, we have talked about why we must make the transformation from a "socialist commodity economy" to a "socialist market economy." This is in order to explain why, in the practice of our country's economic reform and on the issue of the mode of resource deployment, we are using mainly market deployment to replace deployment mainly through planning. However, there is a question which needs to be clearly explained. As planning and the market are both economic regulatory measures, and whether or not there is more planning or more market regulation is unrelated to the social system, why can we not maintain the planned economy system and implement the combination of planning and the market under this system? Why do we need to change and combine the two under a market economy system? That is to say, why does the mode of resource deployment need to be changed from planned deployment playing the main part to market deployment playing the main part? This

question involves a comparison of the contents and various strong points and weaknesses of the two modes of resource deployment. Through many years of practice and observation, it should be said that this issue has become increasingly clear.

Clearly, in resource deployment, both the planning mode and the market mode have their own strengths and weaknesses. Planned deployment generally involves government plans fixed in advance and is realized mainly through the means of administrative orders. Its strong point lies in it being able to centralize strengths (that is, resources) to carry out major undertakings and it can coordinate economic development in accordance with the overall interests of society. However, the main defects in planned deployment are as follows: Because of the limitations in terms of information at hand and the cognitive ability of the people who formulate plans and take decisions, and the fact that it is difficult to avoid limitations in terms of the positions these people occupy and the interests they represent, the mode of planned deployment inevitably involves the problems of bias and tardiness. This often limits economic vigor and is not beneficial to the optimal deployment of resources. Market deployment is usually carried out in accordance with the demands of the law of value, and in accordance with changes in supply-demand relationships, is realized through bringing into play the mechanism of competition. The advantages of this mode are that, through sensitive price information and regular competitive pressure, it can promote the success of superior operations and the weeding out of inferior operations, can promote coordination of supply-demand relationships and can achieve the deployment of limited resources at the optimal links. However, market deployment also has its defects: Market regulation has spontaneity, blindness, and a post facto nature as its characteristics. In the areas of maintaining a balance in overall economic volumes, in preventing great economic fluctuations, in rationally readjusting major economic structures, in guarding against major differentials or polarization between the rich and the poor, in protecting the environment and natural resources, and so on, market regulation can only achieve any effectiveness with great difficulty or often not at all.

Thus, although planning and the market both have their strong points and deficiencies, we must give play to the strong points and avoid the defects, grasp the strengths and reject the weaknesses, and use the two in combination. However, we have still not explained why we need to use the market economy system to replace the planned economy system. I believe that this question is no longer a question of conviction, nor a question of sentiment, but rather a positivist question. That is to say, if we want to answer this question, we must not let ourselves get bogged down in the abstract theory of whether the market economy and the planned economy are socialist or capitalist. Rather, we must firmly examine the historical contest between these two economic operational mechanisms in the world economic arena, to explain

under which conditions they are each most effective in resource deployment and to be able to say which is, on the whole, most effective.

Looking vertically at the modern history of the world, after the market economy was formed, it promoted the great development of the capitalist economy. However, at the same time, the innate contradictions in capitalist society also intensified. In the middle of the 19th century, when the market economy had developed to a certain point, the periodic economic crises which are one of the indicators of the basic contradictions of capitalist society, began to appear. These became increasingly intense, causing factories to close down, workers to lose their jobs and other social catastrophes. After the middle of the 19th century, socialist thought changed from fantasy into a science. In response to the abovementioned problems of the market economy, it put forward the ideas of planned distribution of labor time and a planned economy. This idea was only realized in the early part of the 20th century following the October Revolution in Russia. After World War II, a number of countries, including China, also implemented a planned economy. All countries which implemented planned economies both realized successful experiences and experienced the lessons of failure. For example, the former Soviet Union grew from being an economically backward country into the No. 2 industrial country in the world. After attaining victory in the war to oppose fascism and safeguard the country, the postwar economy recovered very quickly. All of these successes drew benefit from the planned economy. However, from the 1960s on, following the expansion of the scale of the economy, the increasing complexity of the economic structure and the acceleration of the pace of technological progress, the people's livelihood demands increased. The former Soviet Union's planned economy was managed too tightly and the innate defect in being unable to mobilize enthusiasm was gradually revealed. This led to a decline in economic efficiency and a slow down in the speed of growth. Although, to some degree, it maintained a leading position in some spheres such as high technology and defense-related industries, in terms of overall efficiency, in resolving problems of market commodity deficiencies and satisfying the people's livelihood needs, it became increasingly obvious that the traditional planned economy of the former Soviet Union could not solve the problems.

Looking back at the Western capitalist states, in response to the intensification of social contradictions, beginning in the middle of the 19th century, they sought ways to solve the problems of the market economy. Following the emergence of the shareholding system and trusts which controlled and monopolized entire industrial sectors, the problem of lack of planning in production was overcome to some degree. In 1891, in response to the appearance of the shareholding system and trusts in capitalist society, Engels pointed out: "Capitalist production operations by shareholding companies is no longer private production. Rather, it is production by

which many people combine together to seek profit. If we can advance from the shareholding system to trusts which control and monopolize entire industrial sectors, then not only will there be no private production but unplanned production will also cease to exist." During the two world wars, the governments of various countries were forced to implement "controlled economies" which were similar to planned economies. Under such economies, they implemented strict management of labor, materials, and foreign exchange, and thereby they were able to centralize resources in order to satisfy the needs of war. These partial and temporary measures were, naturally, unable to hold back the development of the social contradictions of capitalism. From 1929 into the 1930s, the Western world experienced a huge crisis and a major depression, producing social catastrophes which had not previously been experienced in peacetime capitalist societies. The social contradictions of capitalism were thereby thoroughly exposed. Thus, government economic intervention, such as Roosevelt's "New Deal," were put forward and new principles of macroeconomic management theory represented by the Keynesian "General Theory" appeared. This theory was widely accepted by the various Western countries following World War II and the governments subsequently engaged in macroeconomic regulation and control through financial policies, monetary policies, and other such measures. Some countries, such as France and Japan, also used some guidance planning while countries such as Sweden and Germany, implemented social welfare policies. Although the market economy basis in these countries, which had private ownership as its main part, did not change and it was thus impossible to completely eliminate the troubles brought by the basic social contradictions of capitalism, the government measures noted above, such as implementation of macroeconomic regulation and control and social welfare policies, alleviated the periodic crises and the class antagonism in society. Added to this was the fact that, after the war, there were several powerful new waves of scientific and technological advances. These not only resulted in the development of modern capitalism being able to "continue" but gave it even greater vigor. Thus, we can no longer use 19th century models to understand it.

From the above simple historical review we can observe that, under different historical conditions, the market economy and the planned economy have both seen successes and failures and both have things to recommend them. However, compared in terms of overall efficiency, the modern market economy has already proved to be a more effective economic operational mechanism than the traditional planning system. The traditional planned economy has been clearly proved unable to compete with the modern market economy. It is this objective fact which was one of the major factors which eventually led to the changes in Eastern Europe and the disintegration of the Soviet Union. China's implementation of the planned economy was successful during the First Five-Year Plan. However, subsequently, there appeared problems such as deficiencies of goods

and materials and a decline in efficiency. After the Third Plenary Session of the 11th CPC Central Committee, in response to this problem, some market-oriented reforms were adopted in a timely manner and facts proved that in regions, departments, and enterprises, the deeper the market-oriented reforms and the greater the degree of regulation through the market, the greater the economic vigor and the faster the rate of development. In the more than 10 years since the reforms began, the overall economic power of the state has been strengthened, the commodities in the market have greatly increased in number, and the people's living standards have been improved. The grass-roots worker and peasant masses have wholeheartedly supported the party and supported stability. This has been an important element in recent years in China's being able to stand firm during the harsh tests and being able to avoid following the same road as the Soviet Union and Eastern Europe. This also proves, from one angle, that China's choice of the road of market-oriented reform was a wise one.

From this review of history we can conclude that the planned economy cannot be totally negated. It is more effective under certain historical conditions and within a certain range of application. What then are the historical conditions to which the planned economy is suited? The first is a period when the level of economic development is quite low and the scale of construction quite small (such as the building of the 156 projects during the First Five-Year Plan); the second is a period when the economic structure is quite simple (such as when nonpublic ownership economic components are eliminated and the main development is in heavy industry); the third is a period when development goals are quite singular and centralized (such as in a wartime economy, a war preparation economy, or when resolving problems of food and shelter); the fourth is a period when extraordinary events other than war occur, such as during very major disasters or very major economic crises; and the fifth is a period when the country is closed off and is engaged in self-reliance. Under these conditions, a planned economy is quite effective. However, as soon as the level of economic development rises, the scale of construction expands, and the economic structure, the industrial structure, and the product mix becomes more complex, then development goals become more regular and diversified (the goal of satisfying the rich and diverse livelihood demands of the people and raising the comprehensive strengths of the state, centered on scientific, technological and economic strengths) and opening to the outside results in the economy becoming more internationalized. In such a situation, the planned economy which deploys resources mainly through administrative plans becomes increasingly less suitable and it is necessary to switch, in a timely manner, toward a market economy which mainly relies on the market to deploy resources. This is the situation and task which our country's economy faces at present. In the 1980s, our country's economy rose to a new level. In the 1990s, we must grasp the beneficial opportunity, and on the basis

of optimizing the industrial structure and raising qualitative results, speed development. We must also further expand opening up, move towards the international market, and participate in international competition. This requires that we increasingly stress and bring into play the guiding role of the market in resource deployment and establish a new socialist market economy structure. On this basis, we will be better able to combine the regulatory measures constituted by planning and the market. In the process of deploying resources, we should let the market deal with all that with which the market can deal. Those things which the market cannot manage, or cannot manage well, should be managed by the government using policies and planning. The modern planned economy not only does not exclude government interference and planned guidance but actually must gain assistance from and rely on these to make up for market deficiencies. This must not be forgotten for an instant while we are making the transformation from the planned economy to the market economy.

3. As the market economy is not a concept linked to a political system, why is it necessary to add the defining term "socialist" to it? What characteristics distinguish a socialist market economy from a capitalist market economy?

People abroad have said that all China needs to do is implement a market economy and they ask why it has to be socialist. Such a question derives either from the fact that these people have certain ulterior motives or that they do not understand China's economic reforms, which have the market as their orientation. The aim and content of these reforms is to perfect the socialist system and not to simply copy the Western market economy. People in China have put forward the following query: In terms of the essence of the market economy, there is actually no real difference between the market economies under the two types of social system. If there are differences, they are not due to the market economy itself but the result of the different characteristics of the two types of social system. Thus, some comrades hold that we should not call this a "socialist market economy" but rather say that this is "a market economy under the socialist system" or "a market economy under socialist conditions." I believe that such an argument is not without merit. However, in order to reduce the length of the phrase, we can, through agreement, use the term "socialist market economy" to represent "a market economy under the socialist system" or "a market economy under socialist conditions." In addition, some general categories, when manifested in concrete situations, often show specifics and it is quite common practice to add the defining specificity before the general category. The concepts "socialist modernization" and "socialist enterprise" are examples of this. In respect of the market economy under socialist conditions, it would be best to use the name "socialist market economy" because, while the socialist market economy and the capitalist market economy do have some common aspects, they also have their specifics. Even in capitalist

market economies, the German market economy is not the same as the French market economy and the Japanese market economy is not the same as the U.S. market economy. Thus, the market economies in socialist countries naturally have differences with and characteristics not shared by capitalist market economies. We have already spoken a lot about the common aspects of a socialist market economy and a capitalist market economy, such as the law of value, supply-demand relationships, price signals, the role of the competition mechanism in resource deployment, and so on. Their differences generally derive from the fact that market economies cannot avoid being conditioned by the social system in which they exist. The characteristics by which a socialist market economy differs from a capitalist market economy are determined by the essential characteristics of the socialist system. In particular, these are closely linked with the basic economic systems of socialism.

The main basic characteristics of our country's socialist system, in terms of the political structure, is leadership by the Communist Party and the people's regime. Overall, this regime does not seek the private interests of particular groups or individuals. Rather, it has as its goal serving the interests of the whole body of people. In terms of the basic economic systems, the ownership structure has public ownership (including state ownership and collective ownership) as the main part and individual ownership, private operations, and the foreign-funded economy as supplements. Different ownership systems can be organized and operated in different ways and enterprises in the various economic components and operational forms all enter the market, compete equally, and see common development. The guiding role of the state-owned economy must be realized through the market. In accordance with the ownership structure, the socialist system of distribution has distribution according to work as its main part and distribution in accordance with other production factors as a supplement. Both efficiency and fairness are taken into consideration, the market mechanism is used to rationally expand differentials and stimulate efficiency, and at the same time, diverse regulatory tools are used to minimize any unfairness in distribution, so as to gradually achieve common prosperity. These basic characteristics of the socialist system, through the injection of quite an amount of consciousness and awareness of the public good, inevitably have a major effect on the operation of the market economy. Because of having leadership by the Communist Party, public ownership as the base, and common prosperity as the goal, in the operation of the socialist market economy we are better able to consciously proceed from an angle which combines the overall interests of society with partial interests. In handling the relationship between planning and the market, handling the relationship between microeconomic enlivening and macroeconomic coordination, and handling the relationship between spurring efficiency and realizing social justice, this economy should and can be more effective than the capitalist market economy

and is better able to achieve results. We have full faith in this because, through efforts in overall reforms, all of these things can be realized.

Establishing a socialist market economy system is an extremely complex project of systems engineering, and will involve reform of many inter-related major aspects: 1) reform of the enterprise mechanism and especially transforming the operational mechanisms of medium and large state-owned enterprises. It is necessary, through putting property rights in order and separating government and enterprise functions, to push enterprises towards the market so that they truly become corporate entities and market competition entities which decide on their own operations, take sole responsibility for their own profits and losses, achieve their own development, and have self-restraint mechanisms. 2) The development and perfection of the market mechanism. Not only is it necessary to develop a commodity market but it is also necessary to foster production factor markets, to speed the formation of a pricing mechanism in which prices formed by the market constitute the main part, and at the same time, establish a regulation and management system. 3) The establishment of a socialist income distribution mechanism and social security system which are in accord with the demands of a market economy and observe the principles of socialism. 4) The macroeconomic regulation and control system and mechanism should be established on the basis of the role of the market. There should be a corresponding reduction in government intervention in enterprises and there should be a change from the former system where there was direct microeconomic management of enterprise funds, materials, and personnel, to macroeconomic management in which stress is placed on doing well in planning, coordination, supervision, and services, and the control is realized through financial, monetary, and industrial policies. The switch of government functions in these areas is extremely crucial as, without these changes, it will be difficult to deepen the reforms in the aspects noted above. Each reform in these areas involves a complex process of systems engineering but we cannot detail each here. In brief, establishing a socialist market economy system cannot be done in one step but is something which will require painstaking work for quite a long period. It requires that the whole party, all of the people, and all spheres of society make common efforts, and on the basis of the achievements already realized in the market-oriented reforms over the last 10 and more years, continue to bravely explore, be brave in experimenting, sum up experiences in a timely manner, and smoothly push forward the transformation necessary for our country's new economic structure. In this way, we will be able to greatly promote the progress of the building of socialism with Chinese characteristics and this will allow us to realize, ahead of time, our second and third strategic targets in national economic development.

MINERAL RESOURCES**Xinjiang Discovers 'Large' Gold Deposits**

*HK2602101493 Hong Kong ZHONGGUO TONGXUN
SHE in Chinese 1137 GMT 25 Feb 93*

[Report: "Large Gold Deposit Discovered in Xinjiang"]

[Text] Urumqi, 25 Feb (ZHONGGUO TONGXUN SHE)—The No. 1 Geological Prospecting Brigade of the Xinjiang Administration of Geology and Mineral Resources has discovered a large gold deposit, the Xinjiang Axi Gold Mine, in Keguoqin Shan in the hinterland of the Tian Shan Range. Its potential value is put at 2 billion yuan. In the meantime, 76 metric tons of silver are expected to be produced as an associated mineral. This lays a sound foundation for boosting the autonomous region's gold output.

Capitalism Under 'One Country, Two Systems'

93CM166B Hong Kong CHENG MING

[CONTENDING] in Chinese No 184, 1 Feb 93 p 3

[Special Commentary by Wen Hui: "Analyze a Major Hoax"]

[Excerpt] [passage omitted] In general, capitalist concepts are essentially different from the so-called "capitalist system" in the "one country, two systems" advocated by the Chinese Communists. The capitalism which the people in Hong Kong are pleased to accept has two major characteristics: One is the private ownership system in economy and the market economy with ample free competition, while the other is the democratic system in the field of politics under which people respect human rights, enjoy all types of freedom and conduct universal free elections. This is an European and American type capitalist system. The people in Hong Kong believe that the capitalist system in the "one country, two systems" is something of this type. However, Chinese Communists have a different concept. The "capitalism" in their so-called "one country, two systems" equals or "connects" with the "socialism of the Chinese style," and the characteristics are:

1. The Communist Party controls and interferes in everything. Originally, this will be the system after 1997. However, we have an inkling of the system now.
2. "State" and bureaucrat capital continuously enters Hong Kong in large amounts, gradually changing the economic structure in Hong Kong. Although Hong Kong's market economy will remain after 1997, its mechanism for free competition is bound to become weaker, and the Chinese Communist special privileged class and bureaucrat capital will gradually monopolize the market economy.
3. There is no guarantee for people's human rights and their freedom for action. Now, the Chinese Communists have tried one thousand and one ways to infiltrate and control the media in Hong Kong, and strike at dissidents or media which express different views. In the future, they are bound to stifle freedom of the press and publication, seal the mouths of the people in Hong Kong, and demand uniformity in expressing public opinion. (At the same time, they will mildly or moderately condemn the newspapers and journals under their control and influence, and for a brief period fiercely condemn them while actually helping them a great deal.)
4. As for the so-called "Hong Kong people ruling Hong Kong," those Hong Kong people who will rule Hong Kong are either underground party members or secret party members. (There is difference between the two with the latter stubbornly refusing to expose their party membership.) Those people are also "party helpers," "close comrades-in-arms," and "reliable fellow-travellers." Some are red outside with red hearts, and others are white outside with either red or pink hearts....

They are showing themselves on the stage one after another, and singing different tunes in support of the Chinese Communist Party.

5. The government of the special administrative region and all the administrative organizations are part of the ruling apparatus of the Chinese Communist Party. They are controlled and used by the "communists." All the leaders of these organizations are appointed by imperial order. Either elections under the manipulation and the control of the Chinese Communist Party or council member comrades' mild condemnations in legislative organs actually aimed at helping the Chinese Communist Party are nothing but political ornaments just like rouge on a black cheek.

Although the Chinese Communists wrap the mixture of impure "capitalism" and "socialism" under the autocrat political system with dazzling and colorful wrapping paper such as "horse-racing and dancing halls can operate as usual," "Hong Kong people ruling Hong Kong" and "a high-degree of autonomy" (which is now seldom mentioned), "remain unchanged for 50 years," and "remain unchanged for 100 years" in order to lull the people in Hong Kong, palm off the fake and mislead the people, what the Chinese Communists say, do, hate and condemn, particularly their reckless attacks on democrats and Hong Kong Governor Chris Patten have already exposed that the so-called "capitalism" in the "one country, two systems" is nothing but a word and concept game aimed at confusing and poisoning people's minds. To be more precise, it is a big political hoax to fool the people. [passage omitted]

Perception of Socioeconomic Change

93CM166C Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 279, 1 Jan 93 p 7

[Article by Hong Qingtian, General Manager and Board Member of Hong Kong Statistics and Business Research Institute: "Hong Kong People's 'Great Optimism' About Major Change in China"]

[Excerpts] According to a survey conducted by PAI HSING, more than 80 percent of the respondents believe that China's economic strength will be more powerful and the Chinese people's living standards higher in the next three years, while a negligible percentage—5 to 6 percent believe otherwise. What merits attention is the fact that only 6 or 7 percent of the respondents look forward to "some changes." As far as Hong Kong people are concerned, they believe that China is rapidly improving its economy and raising the people's living standards. China is undergoing a "major change," and this "change" is for the better.

Now, business is booming in China. About 60 percent of the respondents have family members, relatives, friends or colleagues doing business on the mainland. It is not strange that a high percentage of respondents expressed such views on China's improved economic development and people's living standards.

What surprises us is that the people in Hong Kong also expect improvement in almost "forbidden areas" in China such as democracy, freedom and social justice. Nearly half of the respondents believe that Chinese will enjoy more freedom, while only 10 percent of them thought otherwise. Nearly 30 percent of the respondents believe that there will be more democracy in China, while 10 percent of them thought otherwise. Even "social justice" which Chinese people can hardly hope for whether China's economy is developed or not, there are more people in Hong Kong looking forward to "improvement" than "regression." About 30 percent of them believe that "social justice" will be better, while more than 20 percent of them thought otherwise.

There are two implications. One is respondents' "appraisal," while the other is their "expectation." When China is highly rated in the "appraisal," it means that Hong Kong people think highly of China. High "expectation" means that Hong Kong people are pinning high hopes on China. Both implications include approval and pressure.

Hong Kong people believe that China's situation in public security may deteriorate. Nearly 50 percent of the respondents think so, while only 20 percent of them expect improvement.

Generally speaking, today's China is rapidly changing in the eyes of the people in Hong Kong. Its economy and living standards are improving, while freedom and democracy are "catching up" at various speed. However, it is not so optimistic in social justice, and there will definitely be a regression in "maintaining law and order in society." In short, it is the word "change." "Change" will create economic vitality in which freedom and democracy are included. Chinese leaders today are unable to control the "change." Just like China's rulers several thousand years ago, they simply rebuff the "change." As a result, they defy objective laws. They cannot prevent things from being changed. Nor can they

guide the inevitable change towards the direction of benefiting and saving themselves as well as other people. This is true in China as well as in Hong Kong. Sometimes, the term that "everything will remain unchanged for 50 years" in Hong Kong is interpreted as putting Hong Kong in cold storage for 50 years. This is a good example.

Often, world affairs are not the ones in cold storage, but the brains of the leaders. Now, Taiwan businessmen and Chinese Communist cadres at all levels in Beijing, Shanghai and Guangzhou are talking about how great Jiang Jingguo was in ending the dynasty during his reign.

In the eyes of the people in Hong Kong, China is undergoing a major change. However, the government has not taken measures to coordinate its activities with the major change. The appraisal rate for government performance is only an average of 4.53; 40 percent of the people rate the Chinese government as "disqualified," and 40 percent of them said that what the government does is about right. Less than 1 percent of them are pleased with what China is doing. [passage omitted]

Perhaps, the people in Hong Kong believe that the "nongovernment sectors are leading the government" in bringing about this major change and that things have to follow such a course. Although the government fails to keep up with the changing situation, it will eventually help develop its economy and improve the people's living standards. It will also help promote freedom, democracy and social justice. The only things inevitable will be the lack of law and order and chaotic signs. "The going will be rough, but the future is bright." China can be portrayed as such.

Hong Kong people have adopted a realistic approach in dealing with the major change in China, while pinning high hopes on it. Can this also be the general feeling of the Chinese people? Meanwhile, in what way can the ruling authorities in China do a good job in guiding and using this kind of feeling?